Kraft, Incorporated Annual Report -- 1978
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Kraft, Inc.
1978 Annual Report

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The Scope of Kraft's Business

Kraft, Inc. produces and markets thousands of processed, packaged food products which are known and respected for high standards of quality by consumers, retail grocers, foodservice and industrial customers throughout the world.

The company's many product lines include process and natural cheese, salad dressing products, margarine, packaged dinners, fluid milk, frozen desserts, cultured dairy products, refined edible oils, chemicals, packaging materials, aluminum housewares and toys. Kraft products are sold in more than 130 countries.

On the Cover

The improbable place setting shown on the cover of this report is suggestive of significant changes that are occurring in the marketplace: the impact on the food industry of the working woman, and concern for sound nutrition as a subject of growing public interest.

Annual Meeting

The Annual Meeting of Stockholders will be held Thursday, April 19, 1979, at 11 a.m. at the Contemporary Resort Hotel, Walt Disney World, Lake Buena Vista, Florida.

SEC Form 10-K

The company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available upon request and may be obtained by writing to the Secretary, Kraft, Inc., Kraft Court, Glenview, Illinois 60025.

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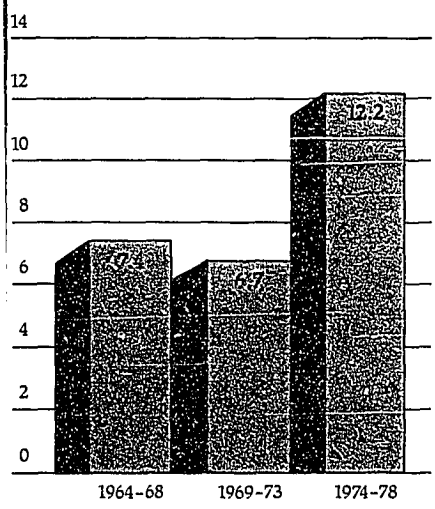
1978 Annual Report

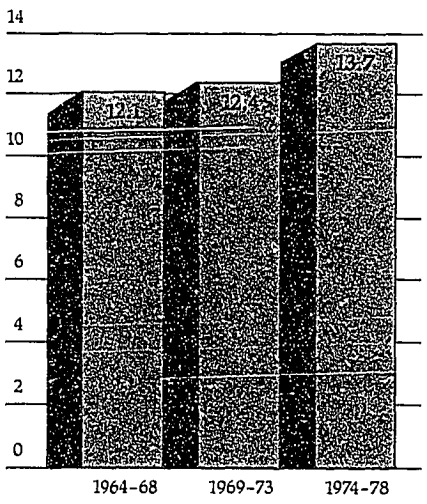
Financial Highlights

	1978	1977
	(Dollars in millions, except per share)	
Sales	$5,669.9	$5,238.8
Net income	$ 184.0	$ 154.1
Per share	$ 6.57	$ 5.51
Per dollar of sales	3.24%	2.94%
All taxes on income	$ 167.3	$ 148.4
Per share	$ 5.98	$ 5.30
Dividends to stockholders	$ 73.9	$ 64.6
Per share	$ 2.65	$ 2.32
Capital expenditures	$ 103.3	$ 77.1
Depreciation	$ 64.5	$ 60.9
Stockholders' equity	$1,218.1	$1,106.6
Number of stockholders	59,819	61,444

Earnings Per Share Growth
(Percent—compound annual)



Return on Stockholders' Equity
(Percent—year-end average)



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Message from the Chairman

To Our Stockholders:

Kraft's worldwide sales and earnings during 1978 were the highest in company history. Net earnings were $184 million, an increase of 19 percent over the previous record year of 1977. Sales were $5.670 billion, or 8.2 percent above the record-breaking results of 1977.

It is particularly gratifying to announce these results because, of the 19 percent rise in earnings, 12 percent is attributable to operations. As such, this gain reflects the skill and efficiency of our employees in controlling costs and increasing productivity. Once again we see the results which can be achieved by capable and motivated individuals working within the framework of our competitive enterprise system.

Because this is my last annual report message as your chairman and chief executive officer, I am sure you will understand how during these weeks one's thoughts tend to move both backward and forward in time. When I joined Kraft in 1937 as a food technologist, our company had annual sales of $351 million. Earnings that year were equal to 2.9 percent of sales.

During the ensuing forty-two years of my active career, Kraft sales multiplied sixteenfold and total earnings increased in proportion. As a percentage of sales, however, our 1978 profit of 3.2 cents on the dollar is remarkably close to 1937. To me, this clearly shows Kraft is part of a highly competitive industry. Also, it tells us that one of the great benefits of competition itself, within a free enterprise system, is that of providing consumers with quality products at a fair cost. It shows that a solid and well-managed company, such as Kraft, can prosper and grow under changing conditions.

And what changes our company has seen! In 1937, millions of U.S. families were getting along on one hundred dollars per month. The world economy was painfully recovering from deep depression only to plunge into the dislocations of world conflict. The United States has been involved in three major wars since 1937 and still has found the strength to sustain the greatest period of uninterrupted economic growth in modern history.

Through this turbulent period, Kraft continued to function as a worldwide corporation despite the complications of inflation, wage and price controls, shortages, surpluses and continuing concern about energy. Under these conditions, Kraft has maintained the quality of its established products, while developing new and improved products. This attention to the fundamentals of sound management will serve the company well as world conditions continue to change.

The record will tell us in detail what has happened in the past; looking ahead, however, is not as simple. Still, your company's present condition speaks well for its future. Our business is under excellent control. The principles of the 1976 reorganization have been put into operation and the one-company concept is working.

Today, Kraft is a strong and versatile organization. Our sales and marketing skills are the envy of our competitors. Our sales productivity continues to improve. We have demonstrated flexibility by the way we move into new markets with new and improved products and product concepts. And I am especially proud of our ability to revitalize mature product lines through creative marketing.

Your company's production and distribution facilities are second to none. A large share of Kraft's total assets are invested in land, buildings and a variety of equipment, representing the latest advances in the state of the art of food processing and distribution. This investment is under continual review so that we will always have the capacity and technology to meet the demands of the marketplace on an economical basis.

During the past two years, which were a breaking-in period for our new corporate structure, we focused on internal expansion in four principal growth areas: retail packaged foods, foodservice, our dairy group and our international operations. In the process, your company has enjoyed two consecutive record-breaking years. And, as a further result, we have become fully familiar with our new organization and are comfortable with it.

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William O. Beers

Although Kraft today has the momentum necessary to move forward during the years immediately ahead, management is concerned about the effects of inflation, and intends to continue cooperation with the government's voluntary anti-inflation program. Further, we are even more concerned about the impact of government programs on the cost of food production, which, in turn, leads to higher food prices for the consumer.

Nevertheless, the dynamic forces now at work within Kraft, supported as they are by our financial, physical and human resources, position the company well for further growth in 1979.

How can these forces be used to satisfy the markets which lie beyond tomorrow? The momentum which is being generated today must be used to prepare Kraft to serve consumers of the future in ways which can only be guessed in 1979. During the past year, I have visited with groups of dedicated young scientists, many of whom are Kraft employees. They are using the economic and physical resources provided today to develop the technology which will enable mankind one day to farm the sun, the desert and the sea.

My only regret is that I will not continue to share fully in the excitement of the unending cycle of discovery, building and expanding which has been a central part of my own life for so long.

Our assurance of further growth, I am convinced, can be found in the young men and women — the managers and executives — who are Kraft today. The future of our company depends on the individuals who are selected, then trained, developed and promoted to lead Kraft into the generation beyond tomorrow. This is the core of Kraft's management development program: to anticipate future leadership needs, to identify individuals with the greatest potential, and to make certain they are prepared by education, by training and by experience to fill key positions as needs arise. They must be able to accept and assume ever-broadening responsibilities that cover an environment which is constantly shifting and changing in its complexity.

One of the most outstanding Kraft executives to have matured and grown as part of this process is John M. Richman, who has been designated by the Board of Directors to succeed me as Chairman and Chief Executive Officer on June 1, 1979. During 25 years of effective service, including a variety of assignments as a member of senior management, John has consistently demonstrated his understanding of our company, our industry and the global business environment in which we operate. At 51 years of age, he is well prepared to lead Kraft into the years beyond tomorrow, for they will be part of his own life as well. John shares my conviction that a chief executive officer's responsibility includes the ongoing process of examination and self-renewal. This process will sustain and, indeed, accelerate the momentum that is now underway. It is the key to providing you, our stockholders, with a satisfactory return on your investment in Kraft.

In conclusion, it is my privilege, on behalf of the Board of Directors and my fellow employees, to thank you for your continued support, and to express once again my faith in this company and its future.

William O. Beers

William O. Beers
Chairman of the Board and Chief Executive Officer

March 2, 1979

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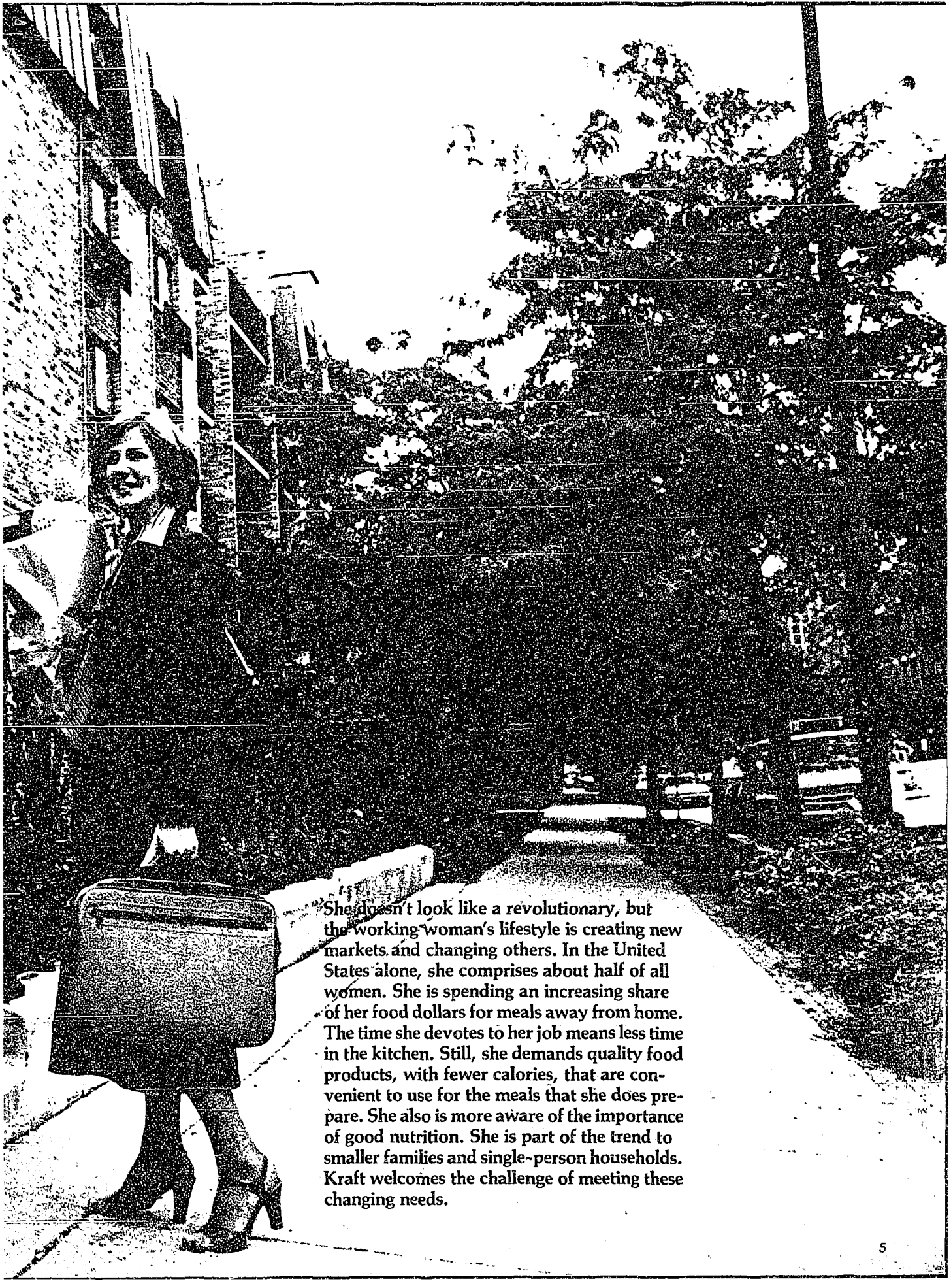

She doesn't look like a revolutionary, but the working woman's lifestyle is creating new markets and changing others. In the United States alone, she comprises about half of all women. She is spending an increasing share of her food dollars for meals away from home. The time she devotes to her job means less time in the kitchen. Still, she demands quality food products, with fewer calories, that are convenient to use for the meals that she does prepare. She also is more aware of the importance of good nutrition. She is part of the trend to smaller families and single-person households. Kraft welcomes the challenge of meeting these changing needs.

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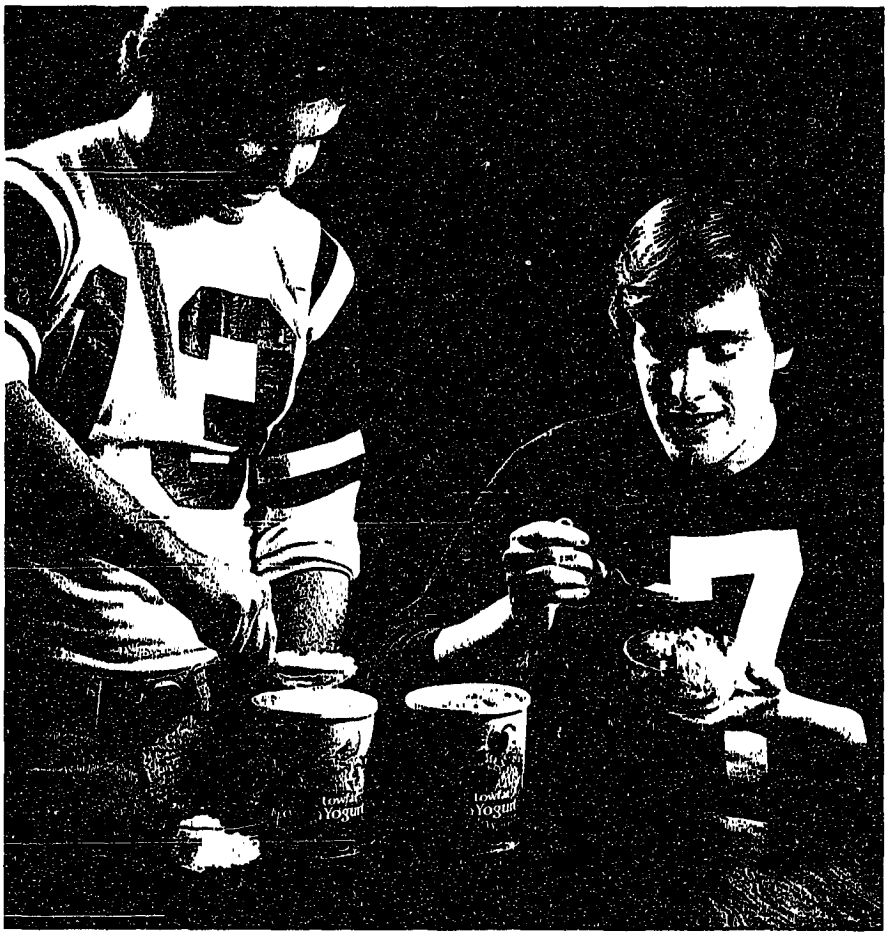

Top: Scaltest lowfat frozen yogurt scores well in U.S. markets and is drawing many fans in Canada. *Bottom: La Santé* lowfat products for calorie-conscious consumers in Belgium.

1978: The Changing Marketpla

One of the new realities in the food industry is a basic shift from historic family eating patterns. This change ha been evolving over a period of years; nevertheless, its effect has been dramatic. The traditional family, which included a working husband, his wife and homemaker, and their young chil dren, now represents a smaller percent age of all households in the United States. In its place, we find more couples without children, more young adults living alone, and more elderly persons also living alone, all in addition to the emergence of the working woman. In many cases, the custom of homemade meals, prepared in the kitchen and shared each day by all members of the family, is disappearing from these households.

These social trends are taking place in other Western nations as well as the United States. Combined with accelerated interest in nutrition, weight control and leisure foods, they have presented unprecedented marketing opportunities to the food industry.

Over the years, Kraft has consistently introduced products that provide added convenience in the kitchen *Kraft Singles* slices, *Squeeze Parkay* margarine, and the famous *Kraft* macaroni and cheese dinners are excellent examples. The company's majo brand names have long been identified with wholesome products that make a significant contribution to a nutritionally sound diet.

As 1978 began, the largest and most successful promotion of *Kraft* retail products in company history was launched. The Family Reunion theme emphasized the fact that the *Kraft* brand name has been associated with the bringing together of good food and families for more than three generation

Through the year, Kraft continued to expand marketing of products for use in the home. The Premium Ice

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Cream Program, which includes the *Breyers, Sealtest* and *Light n' Lively* lines, was introduced into the Houston and Dallas/Ft. Worth markets. *Breyers* sundae style yogurt is now available throughout the company's U.S. dairy marketing areas. *Sealtest* lowfat frozen yogurt is also distributed in all dairy markets. Frozen yogurt products, including novelties, were introduced to Canadian consumers by Dominion Dairies Limited, a Kraft subsidiary. New or improved dairy products of 1978 included *Light n' Lively* yogurt dips in four flavors. Now, only natural colorings are used in *Light n' Lively* ice milk, and *Breakstone's* cottage cheese was reformulated to assure freshness over a longer period of time.

To take advantage of the trend to greater consumer interest in diet and nutrition, the *Light n' Lively* line of lower-fat, reduced-calorie process cheese products was expanded from test market into regional distribution in April and into national distribution just five months later. *Parkay Light* spread, a vegetable oil product with 25 percent less oil than margarine, was put into national distribution in September, following an unusually favorable reception in test markets. Another cheese marketing development was the successful testing of "Thin Deli Style" natural Swiss slices.

In a combined merchandising program, *Miracle Whip* salad dressing, which enjoyed substantial gains during 1978 as "The Bread Spread," was teamed with *Kraft Singles* in an effective Sandwich Days promotion. A number of new pourable dressing products were distributed in regional markets.

Kraft expanded in the multi-billion-dollar—and fast-growing—snack market with an extended line of the company's long-established *Cheez 'n Crackers* product. These snacks, now in test market, are designed to appeal to parents, their children and others who wish to enjoy wholesome snack foods.

Kraft products fared well during 1978 in other nations. Dips, cheese spreads and imported natural cheeses

Left: Minicomputers that calculate process cheese ingredient blends more quickly and accurately are used in several Kraft quality control laboratories. *Right:* Old and new favorites from Kraft make perfect sandwich companions.

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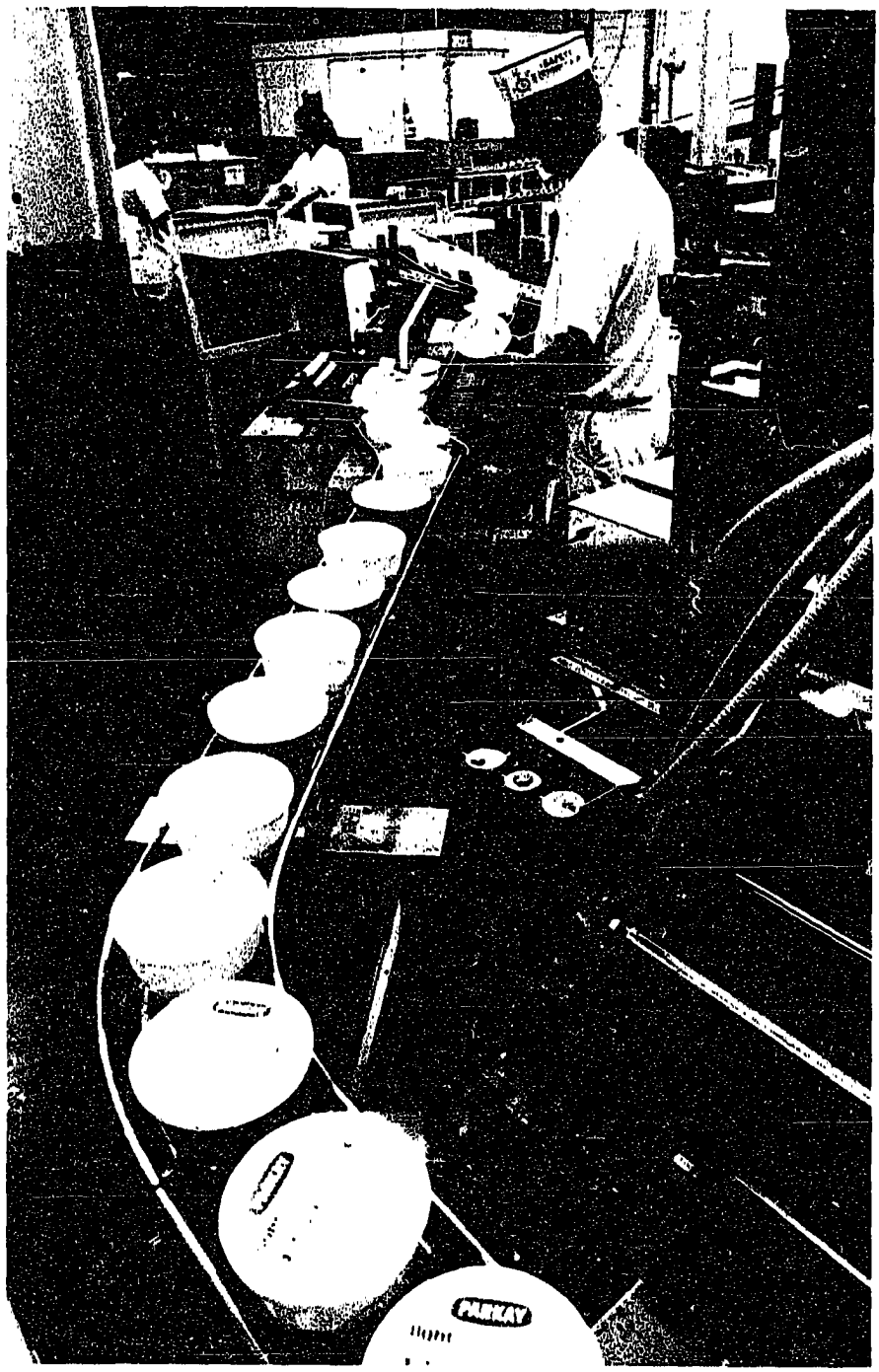
were introduced in Australia. *Cheez Treet*, a filled cheese spread, went into distribution in the Philippines. Filled cheese is different from the natural product in that the butterfat content has been replaced largely by vegetable oil. *Cheez Treet* is an extension of a successful imitation cheese loaf developed to provide Philippine consumers with a nutritious cheese product at a lower price. *Philadelphia Brand* cream cheese was launched in Belgium. *Kraft* mayonnaise, sweetened condensed milk and *Philadelphia Brand* cream cheese are now available in the Canary Islands.

Kraft's overall marketing target is eventually to participate in all meals, wherever consumed. Foodservice continues to be the fastest growing segment of the U.S. food industry, with annual sales estimated at more than $100 billion. Therefore, Kraft's foodservice operation concentrates on the production and distribution of food products and related supplies to all commercial and institutional users.

In 1978, seven broadline Kraft foodservice distribution centers were opened, bringing the total to 19. The new offices serve the metropolitan areas of Atlanta, Birmingham, Dallas, Los Angeles, Memphis, New Orleans and Tampa. Kraft broadline districts now cover about 60 percent of the major U.S. markets. The remainder are served by limited-line distribution centers, some of which, in turn, will be converted to broadline operations to serve the metropolitan areas in which they are located. Each broadline center sells and delivers approximately 1,800 food products and supply items. These include many products specially produced by Kraft, as well as top-line items obtained through other leading manufacturers.

During 1978, Kraft introduced foodservice portion control cheese products in five varieties: sharp and mellow cheddar, Muenster, brick and Gouda. Also, larger-sized portion control salad dressing products were expanded into national distribution, including the four fastest-selling varieties: Italian, *Catalina* brand, Thousand Island and French. The fast-growing frozen food lines, which currently consist of meat, poultry and fish entrees, and of pastries, are now sold through all broadline districts.

Foodservice plans for the current year include a pizza product designed specifically for microwave heating in schools, and a new line of specially processed cheese products.



Consumers have reacted favorably to the texture and flavor of new *Parkay Light* spread.

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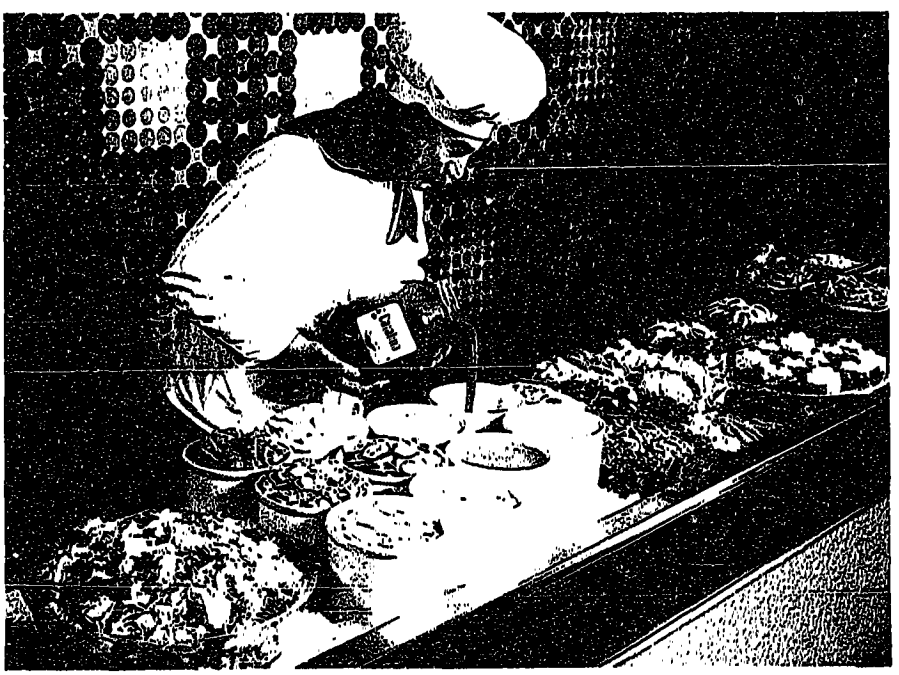
Kraft's packaging operations made gains during 1978. The company is an important supplier of cast-iron moulds for use in forming glass containers. Kraft is also manufacturing a plastic-clad glass bottle which was developed in the industry for use by soft drink firms. The single-service container is safer, lighter in weight, and less expensive than traditional glass bottles. Also, the billboard-type label is ideal for imprinting with the bottler's information. Kraft technicians and marketing teams are playing an important role in the introduction of low-density and ultra-low-density paperboard packaging. These materials provide significant savings in packaging costs without loss of quality.

The creative use of advertising techniques and media has long contributed to the success of Kraft sales and marketing programs. Maintaining the company's standards of good taste and family entertainment value requires perseverance and ingenuity. The company continues to seek acceptable programs and other advertising vehicles to reach consumers with the twin messages of Kraft quality and reliability.

On April 1 and 2, 1979, the U.S. television audience will have an opportunity to see the results of a major



Top Left: Special processing, developed by Kraft, assures foodservice customers high performance from fast-selling *Red Label* liquid shortening. *Top Right:* Additional high-speed equipment helped meet demand for *Kraft* peanut butter, number one in the Canadian marketplace. *Bottom:* In addition to well-established pourable dressings, Kraft offers many other products for salad bars, which bring patrons back again and again.

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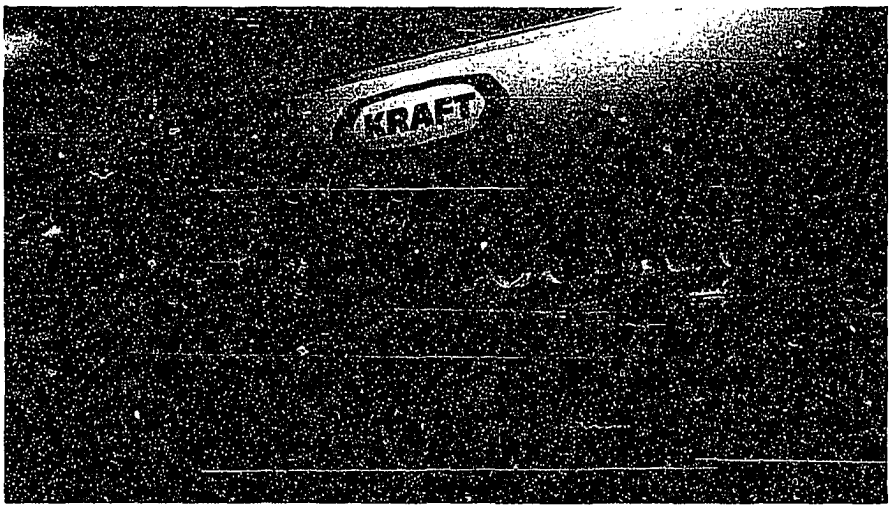
Top: Foodservice customers receive deliveries of frozen, refrigerated and dry products from a single truck. *Bottom: Old MacDonald Had a Farm* cookie cutter sets from Kraft's Aluminum Specialty Company, with recipes and decorating tips from the Kraft Kitchens, add to the fun of making cookies.



programming venture. This will be an animated version of "The Lion, The Witch and The Wardrobe," the first book in "The Chronicles of Narnia" series of classics written by the late C. S. Lewis. The two-part fantasy, eighteen months in the making, is being produced by the award-winning Children's Television Workshop, creators of "Sesame Street" and "The Electric Company." Kraft's support for the two-night program includes special instructional materials and displays for use in schoolrooms and libraries. These are in addition to the extensive multimedia tie-in marketing promotions that are a regular aspect of Kraft television specials.

Improving productivity is a continuing goal at Kraft. Output per direct manhour was greater in 1978 than during the previous year throughout most of the company. Progress is often achieved through the success of individual projects, many of which are developed on a local basis. Some of these, after careful sifting and analysis, are adapted or applied directly to other processes at other places. In 1978, productivity improvements included projects such as: mechanical sectioning of oranges; installation of new equipment for the bulk handling and breaking of eggs; improvements in the manufacture of less expensive, plastic milk jugs; an automatic system for hardening ice cream; and more.

Kraft's systems technology was employed in a number of ways. Retail Food Group sales routes were analyzed with the help of computer techniques. Special attention was given to retail store coverage and time allocation, resulting in higher productivity, better expense control and reduced motor vehicle fuel consumption. A long-range program was planned for interpreting and integrating sales forecasts with the necessary planning of production and distribution; also, an improved cheese inventory control program was designed for future installation.

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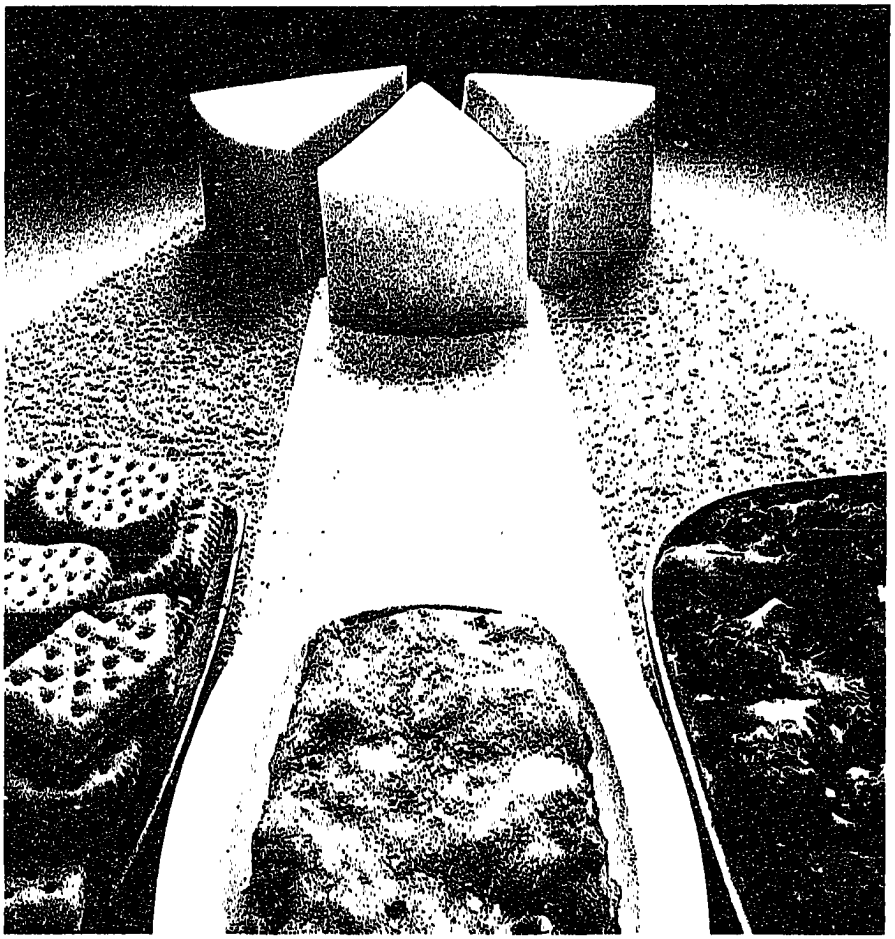
Construction of new labor-and-energy-efficient facilities and the modification of less efficient locations is another ongoing program. In 1978, capital expenditures were $103 million. The year saw a major expansion of the edible oil processing plant in Buena Park, Calif. Kraft's rapidly growing markets in the Rocky Mountain and Pacific Coast states also will be served from an expanded cheese processing and distribution center now under way in Pocatello, Idaho. Construction is scheduled for completion in 1979.

An increasingly important factor in operating results is the benefit of effective fuel and energy management practices. Kraft's U.S. food production facilities used 10.8 percent less fuel and energy per pound of product during 1978, compared to the base year of 1972. Also, despite the fact that edible oil refining is a highly energy-intensive process, our refining operations achieved a 17 percent improvement over 1972, surpassing the 12 percent figure set by the government as the 1980 target for food processing firms.

Among the conservation techniques tested or adopted at various locations during 1978 were: utilization of cooler air drawn in from outdoors for refrigeration at northern locations; recycling of waste heat from process operations to generate additional steam without the use of additional fuel or energy; and continued conversion to trucks with diesel engines, enabling Kraft to drive more than one million additional miles during 1978 alone, while using 600,000 fewer gallons of fuel.

Kraft's long-standing policy of voluntary cooperation with municipalities in matters of environmental control has resulted in keeping local operations in compliance with government regulations, while at the same time producing improvements in water conservation and waste treatment.

The Technical Operations Program, which was put in place during 1977 at locations that produce *Kraft* brand products, was extended in 1978 to the company's dairy product locations. This comprehensive quality assurance program goes well beyond the hazard analysis and critical control point standards which could become mandatory under pending legislation. This program puts Kraft operating personnel in full command of every step in the production and distribution chain, from on-site inspection of raw food ingredients through processing, packaging, warehousing and delivery. It extends even to continual surveillance by the Kraft sales organization of products in the supermarket, to help assure freshness and peak quality at the consumer's table.



Top: Kraft's more than 25 varieties of cheese powders sold to other food processors continued excellent growth trends. *Bottom:* Kraft's Metropak Containers Corporation is fast becoming a major force in the design, production and sales of cast-iron moulds used by glass manufacturers.

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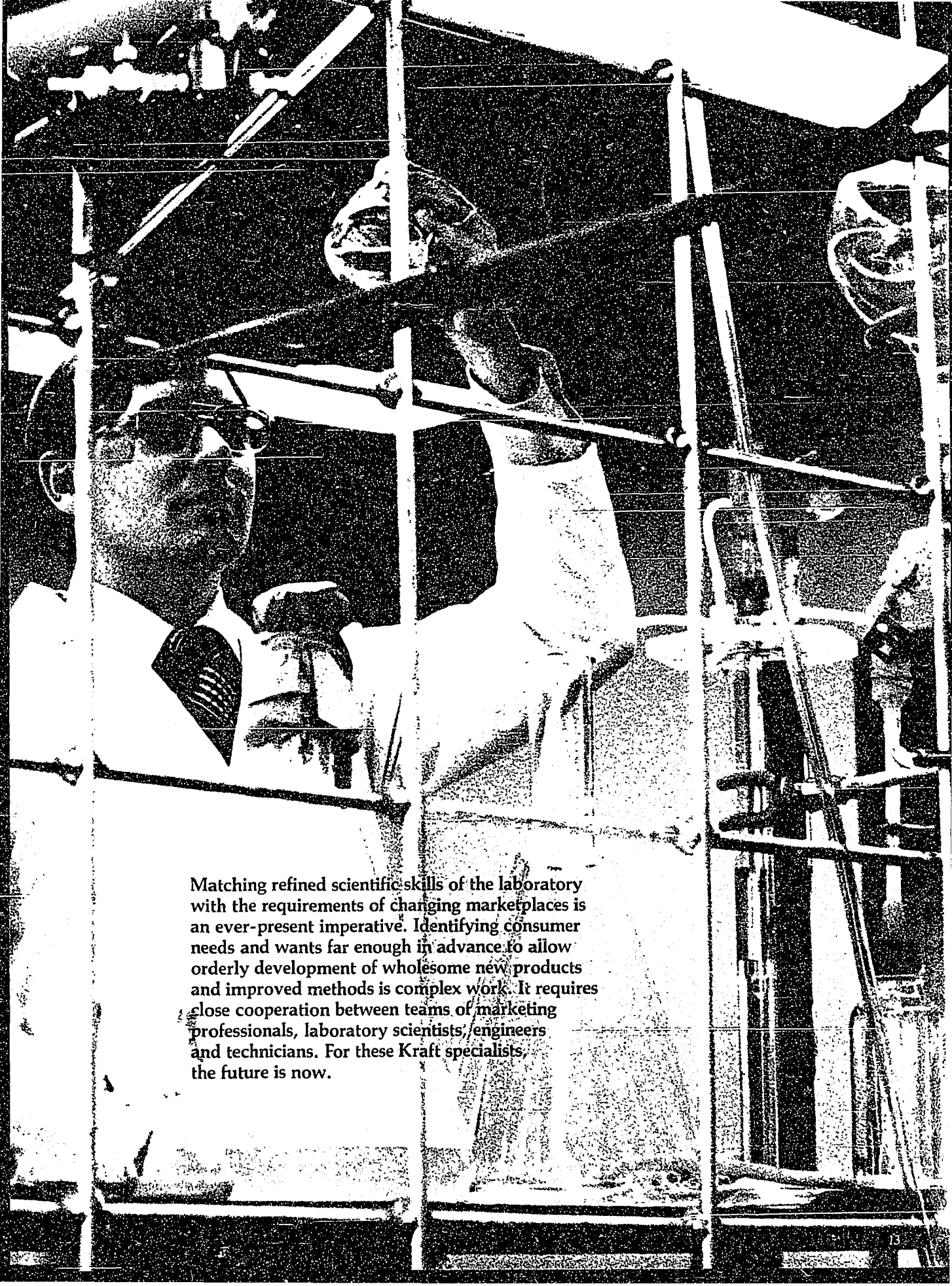

Matching refined scientific skills of the laboratory with the requirements of changing marketplaces is an ever-present imperative. Identifying consumer needs and wants far enough in advance to allow orderly development of wholesome new products and improved methods is complex work. It requires close cooperation between teams of marketing professionals, laboratory scientists, engineers and technicians. For these Kraft specialists, the future is now.

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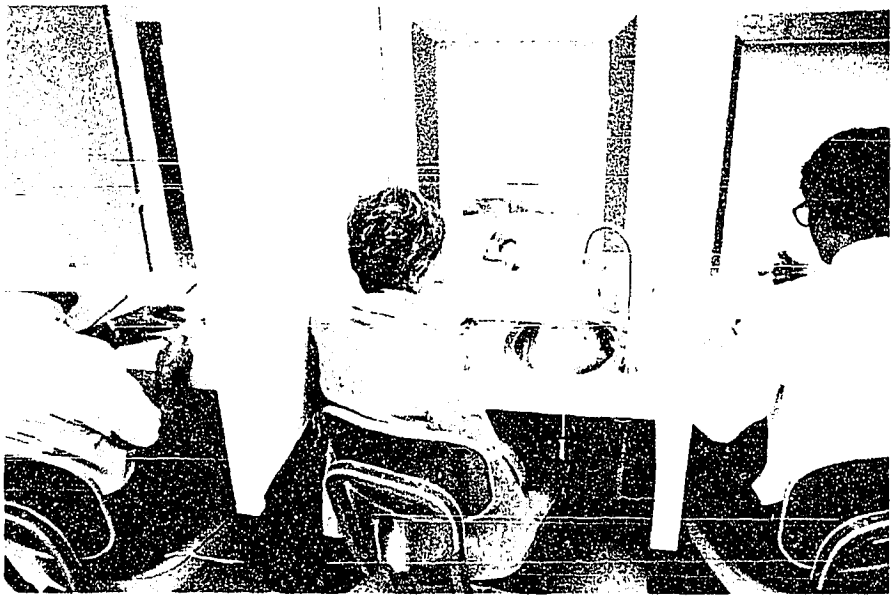

Top: Although technological expertise in formulating and processing new products is important, the proof is still in the tasting, shown here in the Sensory Evaluation Laboratory at R & D. *Bottom:* Kraft's Nutrition Advisory Council, a panel of independent experts, assists senior executives in shaping and implementing nutrition policy.

The merging of technology, marketing research and product development as an integrated function under the direction of a single senior officer took place at Kraft five years ago. The combined program is designed, first, to meet current, short-term requirements as expressed in the marketplace to maintain the company's growth and profits. Second, the same professionals are looking far into the future to identify long-term trends and to develop new strategies to take advantage of the opportunities that are presented.

In 1978, a separate research and development function for Western Europe was established. Research and development on the Continent and in the United Kingdom are being more closely coordinated with related activities in the United States. Marketing opportunities in the various nations are being identified, along with new product ideas from those markets which might be used effectively elsewhere in the company.

To satisfy current market needs, Kraft improves established products, adds varieties and sizes, and develops new formulations, such as the expanding *Light n' Lively* lines, to provide consumers with an ever wider and up-to-date selection from which to choose. The *Golden Image* line of imitation cheese products, which are made principally with corn oil, is clearly an example of Kraft's attention to the development of new technologies.

Preparing the company to take full advantage of long-term trends involves the development of products and services for which no market may yet exist. In 1978, Kraft moved forward in the pursuit of projects with potential long-term significance.

As the cost of feeding animals continues to rise, it makes sense to investigate and develop new, alternate sources of protein. Since 1977, Kraft has conducted an experiment in aquaculture, or fish farming. The fish are raised in the warm water outflow of an electric power plant. The growing fish are fed a mixture containing whey and other cheese by-products of processing operations. It will be some months before Kraft scientists begin their evaluation of the future of this intriguing program.

Elsewhere, R & D is collaborating with North Carolina State University scientists in a program to determine the benefits of feeding poultry a ration that contains a high proportion of nutritious milk-derived ingredients. The goals of the new regimen are to stimulate more rapid growth while improving the flavor, juiciness and tenderness of the meat. Reduced losses from disease and from substandard growth are further aims.

In addition, Kraft is conducting research on basic vegetable protein. Since 1975, a facility devoted exclusively to research on vegetable proteins has been developing new ingredient sources for various foods. Should the need arise, Kraft can provide a variety

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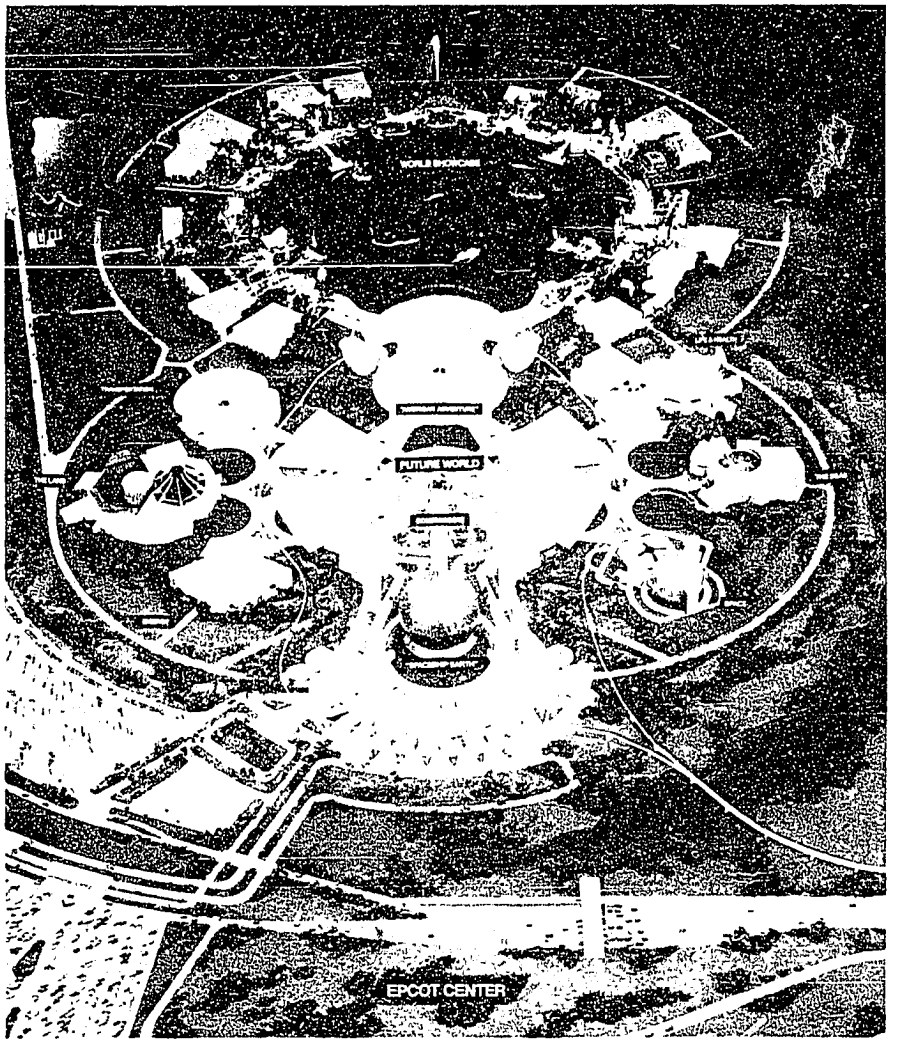
This is a preliminary scale model of EPCOT (Experimental Prototype Community of Tomorrow) scheduled to open at Walt Disney World in October 1982. Kraft will sponsor the Land Pavilion.



of products from non-dairy proteins. All provide the same levels of nutrition, taste, texture and appearance that are identified with traditional Kraft dairy products. Such newly formulated products have enormous potential in developing countries where conventional milk protein foods are either too costly to produce or are unacceptable to consumers.

Kraft researchers are examining the use of various processing techniques to create food products that do not need refrigeration. This research involves the application of a number of concepts: the use of the retortable pouch and aseptic packaging, both of which also reduce the amount of heat needed in processing; and the development of foods with intermediate moisture contents, which imparts shelf-stability without need for refrigeration. Another area of technological exploration is the development of products specifically designed to take advantage of the unique capabilities of the microwave oven. This appliance is gaining popularity in kitchens around the world.

Corporate nutrition policies are formulated and monitored under the direction of two advisory groups. The Nutrition Task Force is an internal committee of Kraft executives. The Task Force establishes policies and then reviews products and procedures for consistency and compliance with these nutrition and quality standards.

The Kraft Nutrition Advisory Council, organized in 1978, is made up of distinguished professionals from outside the company, representing the fields of nutrition, medicine, education and the law. The Council has the responsibilities of evaluating Kraft policies, products and marketing programs in regard to nutrition, and making recommendations to management on these matters.

In 1978, the company endowed four new fellowships in nutrition studies at The University of Chicago. Two fellowships are provided for postdoctoral students who plan careers in teaching. The plan also provides annual grants to two medical school students who concentrate on nutrition in their studies. This is seen as a step toward greater emphasis on nutrition as an aspect of preventive medicine in future medical practice and research.

In another innovative educational venture, Kraft underwrote as a public service, "The Adventures of Slim Goodbody in Nutri-City," a children's health feature series now being broadcast twice weekly on the award-winning "Captain Kangaroo Show." Superhero Slim Goodbody assists parents by offering to young viewers a variety of entertaining lessons about nutrition, exercise and general good health habits.

A dramatically different forum for public consideration of means for meeting future food requirements was selected during the year. Kraft agreed to join forces with Walt Disney Productions as sole sponsor of the Land Pavilion in the Experimental Prototype Community of Tomorrow (EPCOT) at Walt Disney World, near Orlando, Florida. EPCOT Center will be a vast showplace for potential technological concepts of the future. The Land Pavilion will draw together the accomplishments of world agriculturists to create a vivid panorama of creative possibilities for feeding mankind. The role of sound nutrition will be an integral part of the Land Pavilion message.

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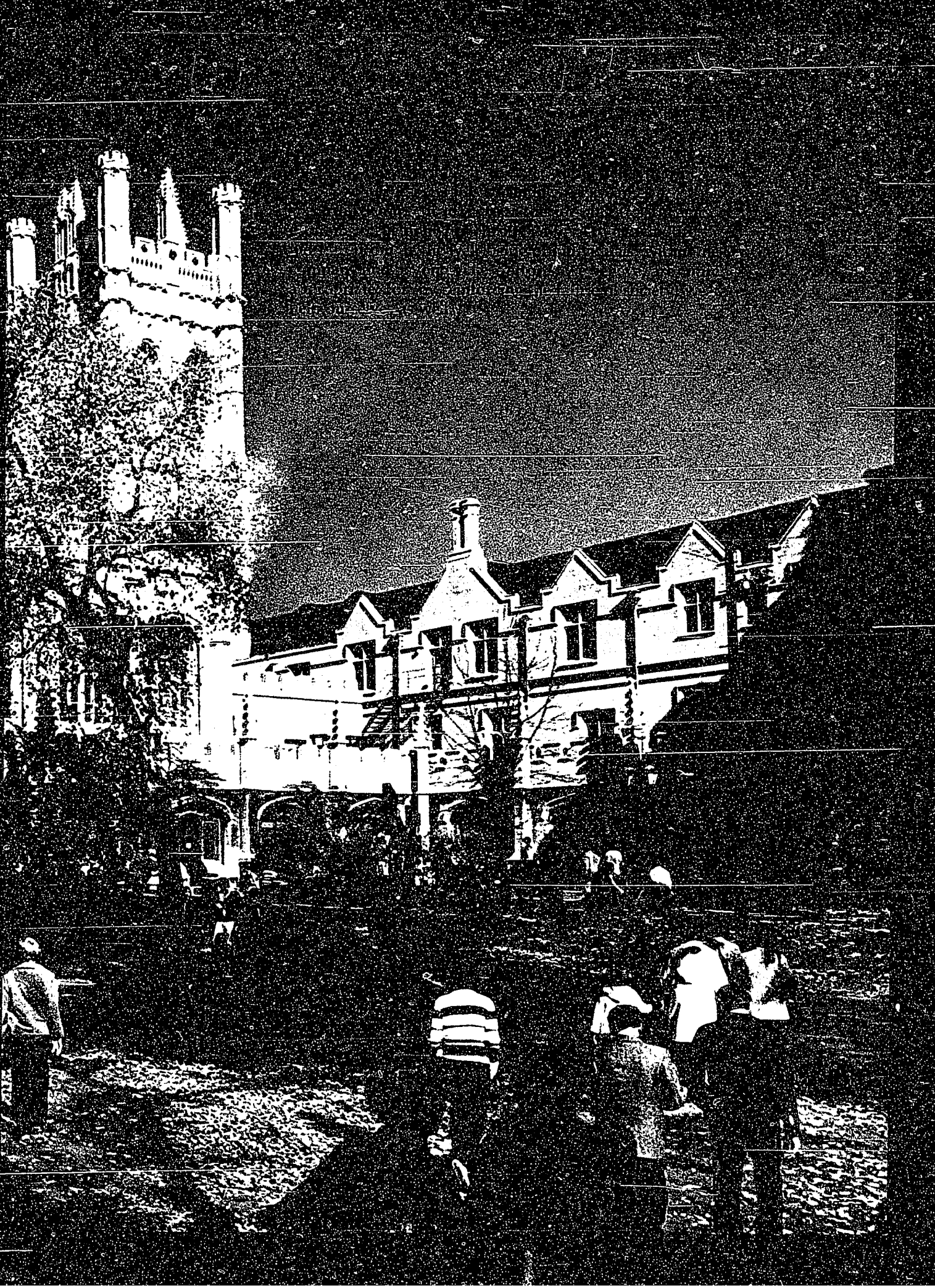

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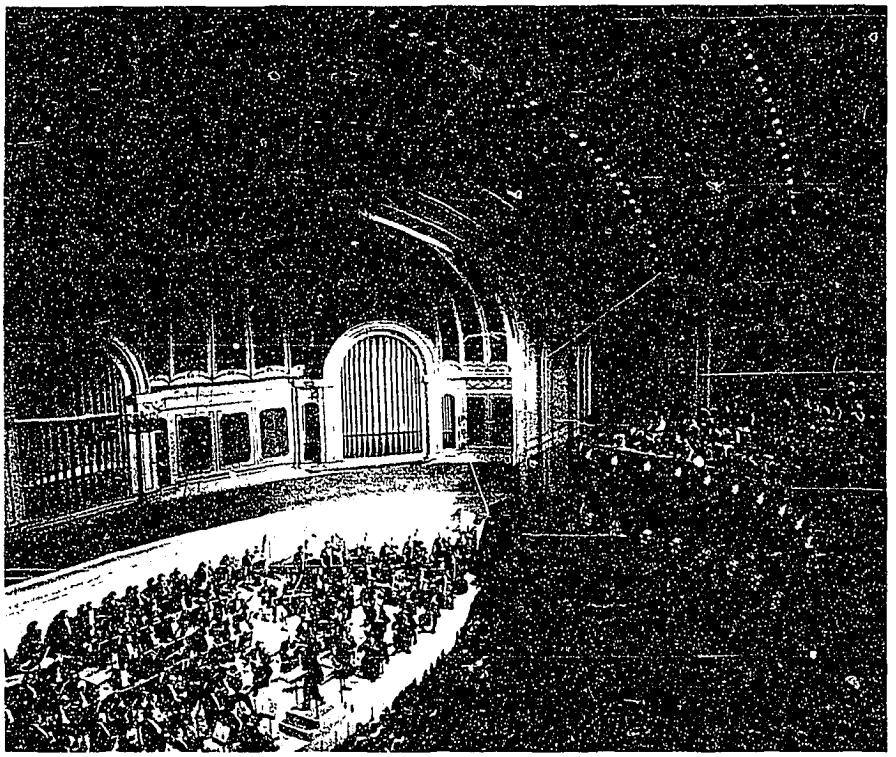

Top: Kraft brought the excitement of the world-famous Chicago Symphony Orchestra into America's living rooms with a three-concert series on Public Broadcasting Service (PBS). *Bottom:* Quick-thinking Julian Martinez of Buena Park, Calif., saved fellow employees from probable injury and became the first individual to receive the corporation's outstanding safety achievement award.

Kraft's social interest programs consist of a blend of financial aid and the personal involvement of employees in support of numerous agencies and organizations. Medical research and services, along with education at all levels, received the largest dollar shares of the company's giving in 1978. Substantial grants were made to major hospitals for research, especially on cancer. In another health-related activity, Kraft co-sponsors the National 4-H Health Awards.

A program to match the contributions of employees to local United Way campaigns was initiated. This is an important extension of Kraft's traditional support of local fund drives in communities where the company has operations. It has significantly expanded employee participation, and the company's gifts have increased proportionately.

Kraft dollars for education were distributed in various ways. The company matches gifts from its employees to colleges and universities. In addition, Kraft contributes to the State Associations of Independent Colleges and Universities and to the United Negro College Fund. These agencies, in turn, allocate the money to member colleges across the nation. The number of National Merit Scholarships awarded by Kraft to children of employees was increased to twenty. Active employees are able to continue their education with the assistance of tuition refunds from Kraft.

A program, which has been highly praised for its educational value as well as for the worthwhile product ideas it is generating, was designed and conducted by The University of Chicago Graduate School of Business. The program brings MBA students, faculty and Kraft marketing executives together for product development projects. As part of each project, the students study the marketplace and develop appropriate strategies for bringing their product concepts to market.

The company encourages employees to serve on the boards of not-for-profit organizations and on special governmental task forces. It supports this type of public service by providing qualified employees with time off the job, with pay, so that they can participate fully.

In addition to the President's Safety Awards and Fleet Safety Awards, which are given to units and locations, notable individual achievements in the area of safety and accident prevention were honored during the year. The first individual Kraft Award for Outstanding Safety Achievement was presented to an employee at Buena Park, Calif., who averted serious injury to fellow

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workers during an emergency, at considerable risk to himself. A second individual award went to a maintenance specialist at the Long Island City, N.Y., ice cream plant who developed a unique modification of materials handling equipment, thereby eliminating a troublesome source of injury liability. Also, a veteran transport fleet employee at New Ulm, Minn., was recognized for driving more than two million miles without a preventable accident during a 28-year span.

Kraft's affirmative action programs focus on two main areas: jobs and career opportunities for women and minorities within the company, and minority economic development in the community. Within the company, the hiring and promotion of women and minority employees increased during the year. Kraft initiated a program with the Chicago Urban League Computer Training Center to help increase the placement of minorities with Kraft and with other area employers in that growing field. Also, a program to hire handicapped persons was developed jointly by management at the Garland, Texas, plant and the Garland Rehabilitation Institute.

Economic development activity saw new minority banks joining the Kraft time deposit program. The company now does business with nearly 80 minority banks; fifteen of these represent Hispanic communities. Funds to pay certain employee health benefit claims are now administered through a minority bank. Elsewhere in the employee benefits area, Kraft began doing business with a third minority-owned insurance firm by placing one of the company's benefit plans with that organization.

The Kraft Plant City Affirmative Action Taskforce Group program was extended into St. Louis and San Antonio, bringing the total number of groups to ten. The Plant City concept brings various local Kraft managers together to work with minority community leaders in programs of economic development, education, social service and employment. The San Antonio Taskforce represents a new dimension of the concept. Rather than being confined to a single city, it covers an entire region, including Kraft operations and minority communities from Houston westward to El Paso. This Taskforce Group is working within the cultural framework of the predominantly Mexican-American population living in its geographic area of responsibility.

Left: Kraft employees are bringing business and economics to junior-high students in Memphis through the Project Business program. *Right:* Kraft's long association with 4-H assumed an added dimension through co-sponsorship of the National Health Awards Program.

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Summary of Operations (See Management's Discussion and Analysis of Operations, pages 21-26.)

Kraft, Inc. and Subsidiaries

(Dollars in millions, except per share)

	1978	1977*	1976	1975	1974
Summary of operations:					
Net sales	$5,670	$5,239	$4,977	$4,857	$4,471
Costs and expenses—					
Cost of products	4,469	4,169	3,991	3,921	3,647
Delivery, sales and administrative expense	838	748	692	650	614
Interest expense	36	34	26	32	39
Interest income	(23)	(13)	(3)	(4)	(3)
Other income, net	(1)	(2)	(7)	(10)	(3)
Total costs and expenses	$5,319	$4,936	$4,699	$4,589	$4,294
Income before taxes	351	303	278	268	177
Provision for taxes on income	167	149	142	128	82
Net income	$ 184	$ 154	$ 136	$ 140	$ 95
Dividends	$ 74	$ 65	$ 59	$ 53	$ 52
Per share of common stock:					
Net income	$ 6.57	$ 5.51	$ 4.86	$ 5.01	$ 3.41
Net income—fully diluted	$ 6.49	$ 5.44	$ 4.80	$ 4.95	$ 3.38
Dividends	$ 2.65	$ 2.32	$ 2.12	$ 1.92	$1.882
Financial position:					
Notes and accounts receivable, net	$ 375	$ 342	$ 311	$ 305	$ 301
Inventories	933	774	763	706	793
Property, plant and equipment, net	643	613	606	584	524
Total assets	2,301	2,085	1,822	1,687	1,755
Long-term debt	307	344	221	216	237
Stockholders' equity	1,218	1,107	1,016	938	850
Per share of common stock	$43.66	$39.69	$36.54	$33.78	$30.67
Statistical information:					
Capital expenditures	$ 103	$ 77	$ 86	$ 117	$ 94
Depreciation	65	61	58	52	49
Total taxes—income, property, payroll and other	239	211	201	183	131
Per share of common stock	$ 8.56	$ 7.58	$ 7.23	$ 6.57	$ 4.72
Payroll and employee benefits	785	715	669	618	580
Average number of employees	46,881	46,907	47,703	48,409	50,410
Number of stockholders at year-end	59,819	61,444	63,384	65,209	66,230
Number of shares of common stock outstanding at year-end (thousands)	27,902	27,883	27,800	27,784	27,718

*Fifty-three week accounting year.

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Financial Review

Long-Term Goals

Long-term financial goals, established in 1972, set objectives of a 10 percent growth in annual earnings and a 15 percent return on stockholders' equity. Progress toward these goals during recent years has been significant.

During the five-year period that ended in 1973, earnings per share increased at a compound growth rate of 6.7 percent. In the subsequent five-year period that ended in 1978, earnings per share rose at a compound growth rate of 12.2 percent. Comparable progress has been made regarding the return on year-end stockholders' equity, which in 1978 rose to 15.1 percent, surpassing the goal. For the five-year period that ended in 1978, the average annual return on year-end stockholders' equity was 13.7 percent, compared to 12.4 percent for the previous five-year period. This information appears in chart form on page 1.

Management's Discussion and Analysis of Operations

(See Summary of Operations, page 20)

Changes in the Components of Earnings

Increase (Decrease) (In millions, except percentages)	1978 compared to 1977		1977 compared to 1976	
	Amount	%	Amount	%
Net sales	$431.1	8.2	$262.2	5.3
Cost of products	300.3	7.2	178.2	4.5
Delivery, sales and administrative expense	89.5	12.0	56.5	8.2
Interest expense	2.3	6.9	8.0	31.1
Interest income	10.5	82.6	9.7	+
Other charges, net	0.7	+	4.7	70.3
Income before taxes	48.8	16.1	24.5	8.8
Provision for taxes on income	18.9	12.7	6.0	4.2
Net income	$ 29.9	19.4	$ 18.5	13.6

Net Sales

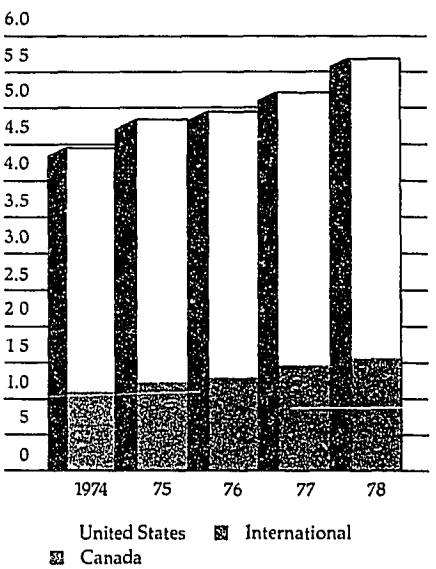
Worldwide sales in 1978 reached a record $5.670 billion, compared to $5.239 billion in 1977 and $4.977 billion in 1976, representing increases of 8.2 percent and 5.3 percent, respectively.

Sales in the United States in 1978 were $4.095 billion, an increase of 7.4 percent from 1977 sales of $3.813 billion. Sales in 1977 were 4.0 percent higher than 1976. Sales increases in 1978 and 1977 resulted primarily from higher selling prices necessary to recover increased costs.

Canadian sales in 1978 were $584 million, a rise of 1.1 percent from 1977 sales of $578 million. The dollar sales increase in Canada in 1978 was reduced by the lower value of the Canadian dollar. Sales in 1977 were 3.0 percent greater than in 1976. Sales increases in 1978 and 1977 resulted primarily from higher sales tonnage.

Sales outside the United States and Canada in 1978 were $991 million, an increase of 16.8 percent from 1977 sales of $848 million, due principally to higher sales tonnage. Sales in 1977 were 13.1 percent greater than in 1976, mainly due to higher selling prices.

Five Year Sales (Billions of dollars)



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Sales tonnage in 1978 for all major product categories exceeded 1977, after adjusting for the extra week in the 1977 fiscal year. Total sales tonnage for 1978 was slightly ahead of the prior year. Product classes showing increased tonnage in 1978 were: cheese, milk, ice cream, yogurt, margarine, barbecue sauce, edible oil and shortening, prepared dinners, citrus products and chemicals. Sales tonnage for salad dressing products in 1978 was higher on continued items.

Worldwide foodservice sales in 1978 were $712 million, an increase of 8.3 percent over 1977 sales of $657 million.

Product and Operating Costs (As a percent of sales)

	1978	1977	1976
Cost of products, including raw materials, packaging supplies and processing expense	78.8%	79.6%	80.2%
Delivery, sales and administrative expense	14.8	14.3	13.9

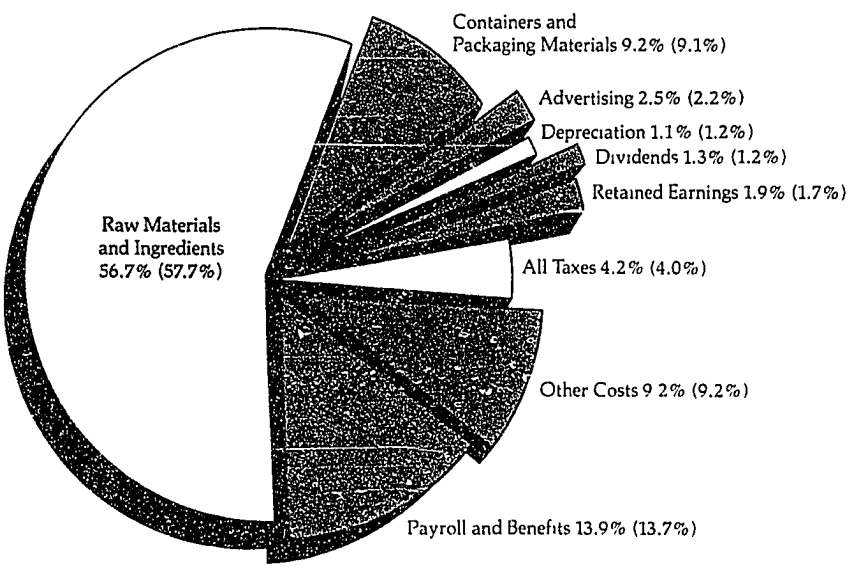
Cost of Products

The favorable reduction in percent of cost of products to sales results from recovery of increased costs through higher selling prices, particularly for cheese products, and from continuing programs for cost control and productivity increases. Domestic cheese prices fluctuated during the three years; however, average costs were greater in each successive year.

Delivery, Sales and Administrative Expense

These expenses were 14.8 percent of sales in 1978, compared to 14.3 percent and 13.9 percent in 1977 and 1976, respectively. The increase in each year can be attributed primarily to increased distribution costs, particularly freight, and higher advertising costs. Advertising expenses were $141.3 million in 1978 (2.5 percent of sales), compared to $116.7 million (2.2 percent of sales) in 1977 and $101.9 million (2.0 percent of sales) in 1976.

How the 1978 (1977) Sales Dollar Was Divided


Containers and Packaging Materials 9.2% (9.1%)
Advertising 2.5% (2.2%)
Depreciation 1.1% (1.2%)
Dividends 1.3% (1.2%)
Retained Earnings 1.9% (1.7%)
Raw Materials and Ingredients 56.7% (57.7%)
All Taxes 4.2% (4.0%)
Other Costs 9 2% (9.2%)
Payroll and Benefits 13.9% (13.7%)

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Interest Expense

Interest expense amounted to $35.9 million in 1978, compared to $33.6 million in 1977 and $25.6 million in 1976. More than two-thirds of the expense relates to long-term debt, listed in the Notes to Consolidated Financial Statements. The remainder relates to short-term borrowings by our International and Canadian businesses for their working capital. The sharp increase in 1977 over 1976 resulted from the $100 million 30-year bonds sold in January 1977.

Interest Income

Interest income was $23.3 million in 1978, substantially greater than the $12.8 million in 1977 and $3.1 million in 1976. Interest on increased short-term investments reflects sharply higher interest rates in the United States.

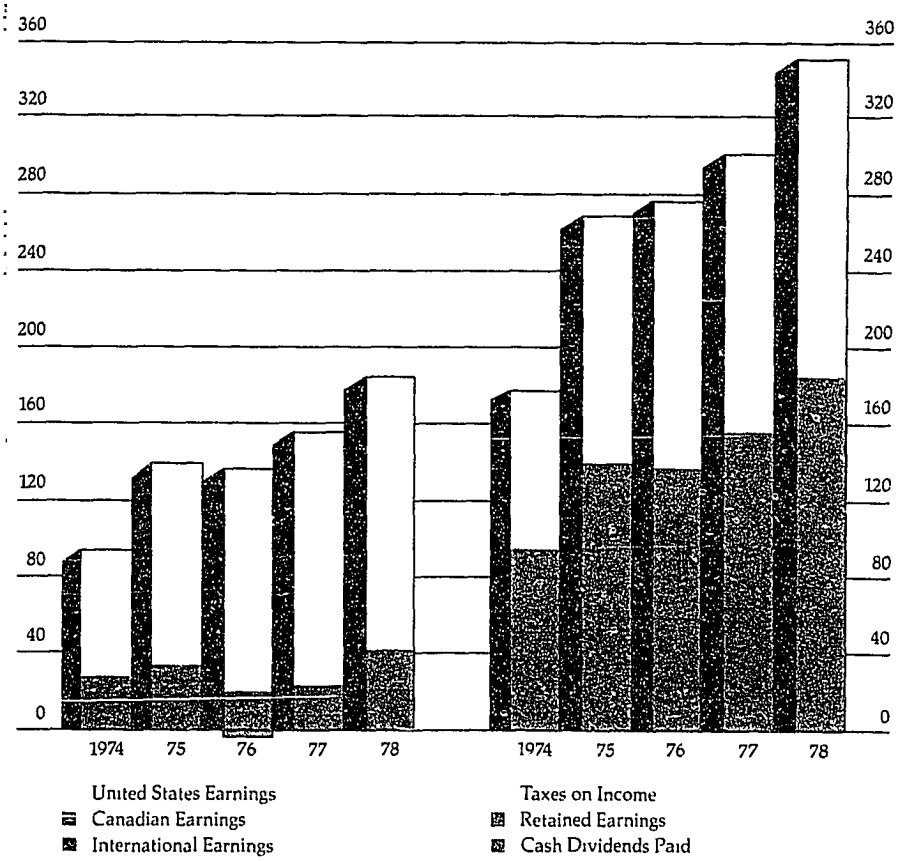
Other Income, Net

Other income, net, consists of purchase discounts, foreign currency translation gains or losses and other miscellaneous items.

Income Taxes

Increases in income taxes result primarily from increases in pre-tax earnings. The effective tax rates were 47.6 percent in 1978, 49.1 percent in 1977 and 51.2 percent in 1976. The differences in effective tax rates for the years resulted from investment tax credits, losses in certain international subsidiaries for which no tax benefits were utilized and restoration to income of income tax reserves no longer required in the amount of 8¢ per share in 1978, 20¢ per share in 1977 and 2¢ per share in 1976.

Five Year Earnings Analysis (Millions of dollars)



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Net Income

Net income for 1978 was $184.0 million, compared to $154.1 million in 1977 and $135.6 million in 1976. The 19.4 percent increase in income in 1978 reflected significant improvements in operating profit in the United States, International and Canada. Also, sales and earnings were higher in each area, with both International and Canadian earnings benefiting from favorable currency translation and lower effective tax rates. In 1977, the 13.6 percent increase in earnings was due to improved margins, a recovery in International earnings and a lower effective income tax rate.

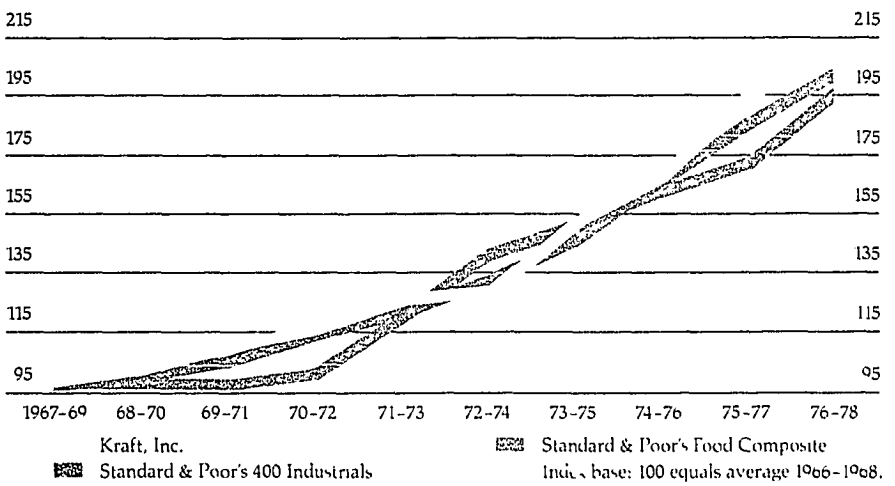
Earnings per share in 1978 were $6.57, an increase of $1.06 per share from 1977. Earnings in 1977 were $5.51 per share, an increase of 65¢ from 1976. As a result of continuing improvement, the growth trend for Kraft earnings per share during the past ten years generally has exceeded those of the Standard & Poor's Food Composite and 400 Industrials indices. as shown in the graph below.

Income per dollar of sales was 3.2¢ in 1978, 2.9¢ in 1977 and 2.7¢ in 1976.

The U.S. investment tax credit increased net income per share by 24¢ in 1978, 14¢ in 1977 and 21¢ in 1976.

Translation of foreign currency balance sheet accounts, combined with charging inventories to cost of products at historical exchange rates, increased earnings in 1978 by 12¢ per share, compared to a decrease of 23¢ per share in 1977 and a decrease of 20¢ per share in 1976.

Indexed Earnings Per Share Growth (Calculations based on a three-year rolling average)



Dividends

Dividends totaling $73.9 million were paid to stockholders in 1978, compared to $64.6 million in 1977 and $58.9 million in 1976. Dividends per share were $2.65 in 1978 (65¢ in each of the first three quarters, increased to 70¢ in the fourth quarter), $2.32 in 1977 (58¢ in each quarter) and $2.12 in 1976.

Dividends paid to Kraft stockholders have produced yields that have been higher than the average yields for the stocks included in both the Standard & Poor's Food Composite Index and its 400 Industrials Index, as illustrated in the graph at the top of page 25. Furthermore, the better yield has resulted because Kraft's dividend payments have grown at a faster rate generally than either of the two indices, as illustrated by the second graph on page 25.

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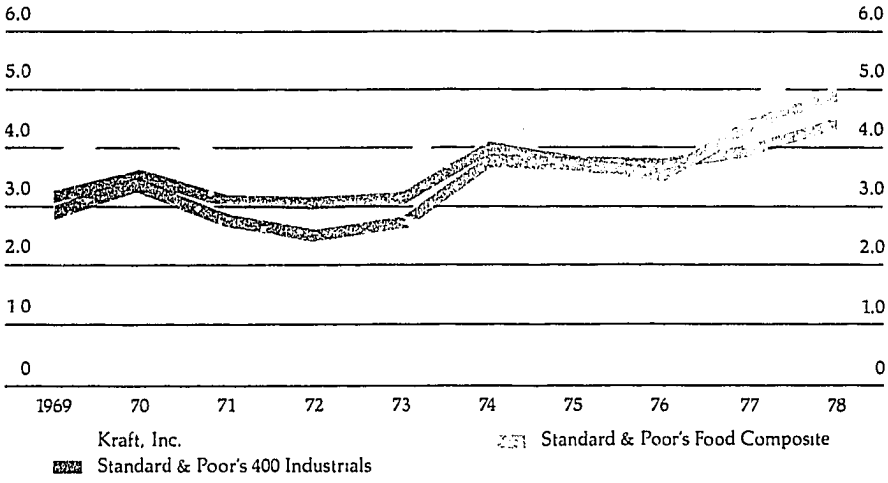
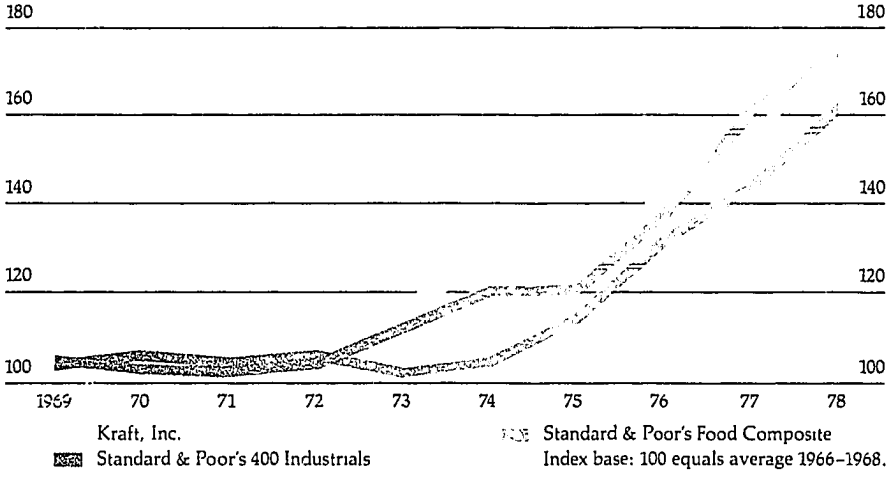
Dividend Yield (Percent)



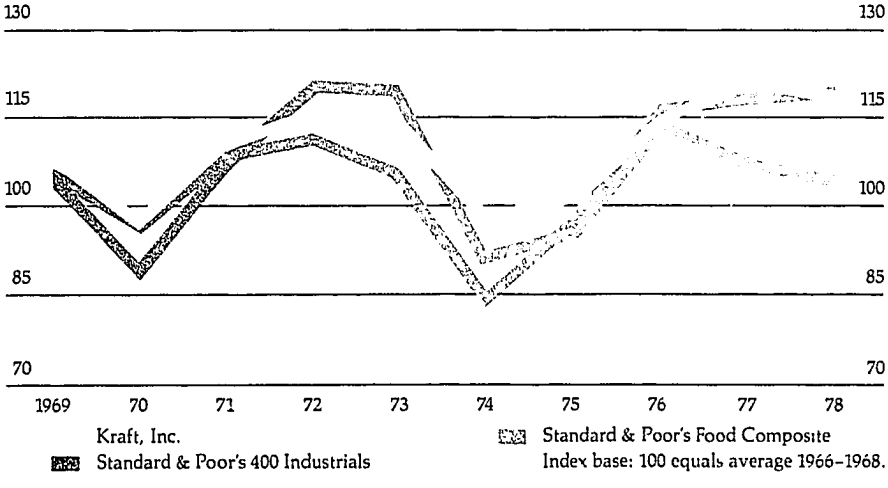
Indexed Dividend Growth



Stock Price Performance

The price performance of the company's stock is another important consideration. As the following graph demonstrates, Kraft's stock price generally has outperformed both of the Standard & Poor's indices during the past ten years.

Indexed Average Stock Prices



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Stock Price Range

The following table shows the high and low prices of Kraft stock by quarters for 1978 and 1977.

	1978	1977
	Composite of six U.S. Stock Exchanges (principally New York Stock Exchange)	
First Quarter	$45-1/2—$41-7/8	$47-7/8—$43-5/8
Second Quarter	$49-7/8—$43-1/2	$49-3/4—$45
Third Quarter	$49-7/8—$45-3/4	$51 —$46-1/8
Fourth Quarter	$48-7/8—$43	$48-5/8—$44

Translation of Foreign Currencies

The effect on earnings of fluctuations of foreign currency translation rates during 1978 is summarized in the accompanying table. Also, see comments on Translation of Foreign Currencies in the Notes to Consolidated Financial Statements.

	1978			
Gains (Losses) (In millions)	United States	Canada	International	Worldwide Total
Balance Sheet Accounts:				
Before income taxes	$5.4	$7.5	$(18.5)	$ (5.6)
Income taxes	$2.6	$2.6	$ —	$ 5.2
After income taxes	$2.8	$4.9	$(18.5)	$(10.8)

In addition, as a result of charging inventories to cost of products sold at historical exchange rates rather than at the rates in effect at the time of sale, net income for 1978 was affected as follows:

	Canada	International	Worldwide Total
Gains (Losses) (In millions)	$(5.7)	$19.9	$14.2

In 1977, translation of foreign currencies on balance sheet accounts resulted in a worldwide loss of $8.5 million, partially offset by a gain of $1.9 million resulting from charging inventories to cost of products sold at historical rates of exchange.

Capital Expenditures

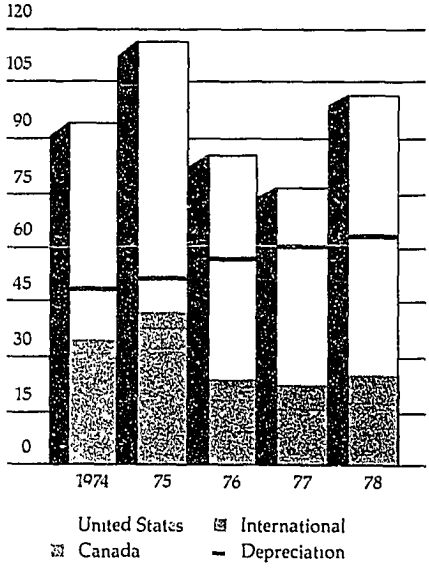
Capital expenditures amounted to $103.3 million in 1978. Expenditures, primarily for facilities to manufacture processed foods, dairy and nonfood products, were $76.5 million in the United States and $8.8 million in Canada. International capital expenditures were $18.0 million. Approximately $140 million of capital expenditures are anticipated in 1979. Depreciation charges amounted to $64.5 million in 1978 and are estimated to be $67 million in 1979.

Legal Matters

Several governmental agencies have requested information from the company in connection with investigations being conducted by them. One such investigation, which the Federal Trade Commission has been conducting over a period of several years, relates principally to the long-standing arrangement under which the company sells refrigerated dough bakery products manufactured by The Pillsbury Company to the retail trade.

Also, see the comments on Contingent Liabilities in the Notes to Consolidated Financial Statements.

Five Year Capital Expenditures and Depreciation (Millions of dollars)



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Consolidated Balance Sheet

Kraft, Inc. and Subsidiaries

(Dollars in millions, except par value)

		Dec. 30, 1978	Dec. 31, 1977
Assets	Cash and temporary investments (see note)	$ 186.4	$ 210.4
	Notes and accounts receivable, less allowance for losses of $9.6 in 1978 and $8.4 in 1977	374.6	342.0
	Inventories (see note)	933.0	774.2
	Total current assets	1,494.0	1,326.6
	Property, plant and equipment, at cost, (see note)	1,218.1	1,155.7
	Less—Accumulated depreciation	574.7	542.7
	Net property, plant and equipment	643.4	613.0
	Miscellaneous investments and receivables (see note)	95.6	87.7
	Prepaid and deferred items	36.8	26.6
	Intangibles (see note)	31.1	31.5
		$2,300.9	$2,085.4
Liabilities and Stockholders' Equity	Accounts and drafts payable and accrued liabilities	$ 466.1	$ 377.9
	Short-term borrowings (see note)	109.6	97.4
	Federal and foreign taxes on income (see note)	87.1	71.8
	Current portion of long-term debt, less amounts provided for payment ($4.0 in 1978 and 1977)	4.3	3.3
	Total current liabilities	667.1	550.4
	Long-term debt (see note)	306.5	344.1
	Deferred taxes on income (see note)	73.1	57.6
	Minority interest in subsidiary	3.1	3.0
	Miscellaneous	33.0	23.7
	Stockholders' equity (see note):		
	Preferred stock, $1.00 par value—authorized 10,000,000 shares, issued—none	—	—
	Common stock, $2.50 par value—authorized 60,000,000 shares, issued 29,451,388 shares in 1978 and 1977:	73.6	73.6
	Capital surplus	49.3	49.5
	Retained earnings	1,162.3	1,052.2
		1,285.2	1,175.3
	Less—Treasury stock, 1,549,706 shares in 1978 and 1,568,711 shares in 1977, at cost	65.5	66.3
	Unearned portion of restricted stock issued for future services (see note)	1.6	2.4
	Total stockholders' equity	1,218.1	1,106.6
		$2,300.9	$2,085.4

Contingent liabilities (see note)

(See Notes to Consolidated Financial Statements, pages 30-39.)

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Consolidated Statements of Income and Retained Earnings

Kraft, Inc. and Subsidiaries

(In millions, except per share)

Consolidated Statement of Income

	52 Weeks Ended Dec. 30, 1978	53 Weeks Ended Dec. 31, 1977
Net sales	$5,669.9	$5,238.8
Costs and expenses:		
Cost of products	4,469.5	4,169.2
Delivery, sales and administrative expense	837.8	748.3
Interest expense	35.9	33.6
Interest income	(23.3)	(12.8)
Other income, net	(1.3)	(2.0)
Total	5,318.6	4,936.3
Income before taxes	351.3	302.5
Provision for taxes on income (see note)	167.3	148.4
Net income	$ 184.0	$ 154.1
Net income per common and common equivalent share	$ 6.57	$ 5.51
Net income per common share assuming full conversion of the 7-1/2% Convertible Bearer Bonds due 1985	$ 6.49	$ 5.44
Average number of common and common equivalent shares	28.0	28.0

Consolidated Statement of Retained Earnings

	52 Weeks Ended Dec. 30, 1978	53 Weeks Ended Dec. 31, 1977
Balance at beginning of year	$1,052.2	$ 962.7
Net income	184.0	154.1
Dividends on common stock ($2.65 per share in 1978 and $2.32 in 1977)	(73.9)	(64.6)
Balance at end of year	$1,162.3	$1,052.2

(See Notes to Consolidated Financial Statements, pages 30-39.)

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Consolidated Statement of Changes in Financial Position

Kraft, Inc. and Subsidiaries

(Dollars in millions)

	52 Weeks Ended Dec. 30, 1978	53 Weeks Ended Dec. 31, 1977
Working capital provided by:		
Operations—		
Net income	$184.0	$154.1
Items which do not use working capital—		
Depreciation	64.5	60.9
Deferred taxes on income	15.5	12.8
	264.0	227.8
Book value of properties sold	9.2	9.6
Proceeds from 7.60% sinking fund debentures	—	100.0
Proceeds from 8-1/4% notes (Canadian subsidiary)	—	22.8
Sales of common stock under options	0.8	0.8
Other, net	7.3	2.8
	281.3	363.8
Working capital used for:		
Dividends paid on common stock	73.9	64.6
Property, plant and equipment additions	103.3	77.1
Redemption of portion of DM Bonds	30.1	—
Decrease in other long-term debt	14.5	4.9
Increase in long-term receivables	—	24.7
Increase in prepaid pension costs	8.8	9.5
	230.6	180.8
Increase in working capital	$ 50.7	$183.0
Increases (decreases) in working capital:		
Cash and temporary investments	$ (24.0)	$173.1
Notes and accounts receivable	32.6	31.3
Inventories	158.8	10.8
Accounts and drafts payable and accrued liabilities	(88.2)	(25.4)
Short-term borrowings	(12.2)	6.5
Federal and foreign taxes on income	(15.3)	(11.0)
Current portion of long-term debt	(1.0)	(2.3)
Increase in working capital	$ 50.7	$183.0

(See Notes to Consolidated Financial Statements, pages 30-39.)

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Notes to Consolidated Financial Statements—December 30, 1978

Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of the company and all subsidiaries. The voting stock of all consolidated subsidiaries is wholly owned, except for a minority interest in a Canadian subsidiary. The investments in an insignificant real estate subsidiary and in 50 percent owned companies are recorded on the equity method. All significant intercompany items have been eliminated.

Translation of Foreign Currencies—Assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing on the balance sheet dates, except for inventories, fixed assets, intangibles and deferred income taxes, which generally are translated at the rates of exchange prevailing at the time such assets were acquired or liability incurred. Income and expense accounts are translated at the average rates of exchange for each month during the years, except those revenue and expense accounts which relate to assets or liabilities translated at historical rates.

Translation adjustments originating during the years are reflected in income. Adjustments of balance sheet accounts decreased net income by $10.8 million in 1978 and $8.5 million in 1977.

Inventory Valuation—Inventories are stated at the lower of average cost or market and include costs of raw materials, labor and overhead.

Property, Plant and Equipment, at Cost:

	Dec. 30, 1978	Dec. 31, 1977
	(In millions)	
Land	$ 26.7	$ 27.8
Buildings	370.6	366.3
Machinery and equipment	820.8	761.6
	1,218.1	1,155.7
Less—Accumulated depreciation	574.7	542.7
	$ 643.4	$ 613.0

Depreciation—The company and subsidiaries follow the policy of providing, by charges against income, for depreciation of the gross book value of depreciable property. Such charges generally are computed on a straight-line basis over estimated useful lives of buildings and on a composite basis over estimated group lives of machinery and equipment.

Intangibles—The excess of cost over net assets of businesses acquired prior to November 1, 1970 ($23.1 million at December 30, 1978) currently is not being amortized since the company believes there has been no reduction in the value of these businesses. The excess of cost over net assets of businesses acquired subsequent to November 1, 1970 ($8.0 million at December 30, 1978, net of amortization) is being amortized over 40 years in accordance with current accounting principles. Amortization was $0.2 million in both 1978 and 1977.

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Research and Development Costs—Research and development costs are charged to expense as incurred. These costs approximated $18.5 million for 1978 and $16.0 million for 1977.

Advertising—Advertising costs are charged to expense as incurred. These costs were $141.3 million in 1978 and $116.7 million in 1977.

Repairs and Maintenance—Expenditures for maintenance, repairs, renewals and improvements, which do not materially prolong the normal useful life of the asset, or are of a minor nature, are charged to expense; and expenditures for renewals and improvements of a relatively major nature that substantially prolong the normal useful life of the asset are charged to accumulated depreciation. The amounts charged to expense were $85.8 million in 1978 and $81.3 million in 1977.

Undistributed Earnings of International Subsidiaries—Federal income taxes are provided on the portion of each international subsidiary's earnings which is not deemed to be permanently invested in the subsidiary. At December 30, 1978, approximately $115.7 million of such net undistributed earnings were considered to be permanently invested.

Taxes—Tax expense is made up of the following components:

	1978	1977
	(In millions)	
Income taxes:		
Current—		
Federal	$111.8	$ 98.4
Foreign	28.5	23.9
State and local (U.S.)	14.3	13.3
Deferred	12.7	12.8
	167.3	148.4
Other state and local taxes (U.S.)	14.5	14.3
Payroll taxes	31.7	28.0
Other taxes	25.5	20.7
	$239.0	$211.4

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The amounts applicable to deferred tax expense in the above table result primarily from the excess of tax over book depreciation.

There are no significant items, either individually or in the aggregate, accounting for the difference between the basic U.S. federal income tax rate of 48 percent and the effective rate.

Investment tax credits are taken directly into income as a reduction of the provision for federal income taxes. Investment tax credits were $6.6 million for 1978 and $4.1 million for 1977.

Employees' Stock Options

During 1978, options to purchase 20,293 shares under the 1970 and 1974 Stock Option Plans were exercised at prices ranging from $28.25 to $38.65 per share, and options for 11,828 shares lapsed or were cancelled. At December 30, 1978, 978 employees (including officers) held options under both Plans to purchase 305,470 shares at prices ranging from $28.25 to $45.90 per share. At that date, options for 108,404 shares were exercisable. No further grants were made under these

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Plans, nor will further grants be made. Proceeds from options exercised during the periods were credited to the common stock, treasury stock and capital surplus accounts. No charges have been reflected in income for any period with respect to the 1970 and 1974 Stock Option Plans.

Long-Term Growth Plan

The Long-Term Growth Plan consists of two related parts: the Stock Ownership Plan and the Growth Bonus Plan.

Stock Ownership Plan—This Plan provides that the Management Compensation Committee of the Board of Directors, who may not be employees and who may not participate in the Plan, may award not more than 300,000 shares of restricted common stock of the company to certain key employees selected by the Committee. In June 1977, 61,000 shares of common stock, previously held in the treasury, were awarded, subject to limitations and conditions set forth in the Plan. No shares were awarded in 1978. The Committee designates restricted periods applicable to each award of shares during which the stock may not be sold, assigned, transferred or encumbered. If, during a restricted period, a participant ceases to be an employee for any reason, the shares of restricted stock are forfeited to the company unless the Committee determines otherwise. The market value of the shares, as of the date of the award, is being charged to income over periods of up to four and one-half years, during which time such restrictions remain in effect.

Growth Bonus Plan—To participate in the Growth Bonus Plan, an employee also must be a participant in the Stock Ownership Plan. The Growth Bonus Plan is designed to provide, if certain objectives are achieved, funds to cover all or part of the federal income tax liability resulting from awards of restricted stock under the Stock Ownership Plan or resulting from the lapsing of the restrictions on the stock. The amount of any cash payment is subject to the achievement of certain Growth Goals over a period of time, called a Performance Cycle, which generally parallels a restricted period under the Stock Ownership Plan. The Committee has determined that, with respect to any Performance Cycle designated during the first five years of the Plan, any Growth Bonus is conditioned upon the cumulative annual earnings per share over a Performance Cycle being equal to the earnings per share produced by a compound growth in earnings per share of at least 9% over the same period, with a 10% rate being necessary to provide an amount equal to the fair market value of the restricted stock at the time the restrictions lapse.

Profit Incentive Plans

Under year-to-year profit incentive compensation plans of the company, key employees, including officers of the company, earned approximately $6.1 million for 1978 and $5.5 million for 1977. These plans, covering 694 and 732 employees for 1978 and 1977, respectively, did not include any director of the company who was not an officer.

Employee Stock Ownership Plan (ESOP)

The purpose of the Plan is to enable participating employees, 16,052 in 1978 and 16,107 in 1977, to share in the ownership of the company. The Plan includes all U.S. employees who are not covered by a collective bargaining agreement and who have three or more years of service, except for participants in either the company's incentive compensation plans or its Long-Term Growth Plan. The Plan

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is intended to qualify under the requirements of Section 401(a) of the Internal Revenue Code of 1954, Section 301 of the Tax Reduction Act of 1975 and Section 803 of the Tax Reform Act of 1976.

Under the federal tax laws, the company's investment tax credit increased from 10% to 11% as a result of contributing the extra 1% to the ESOP. Under present legislation, the additional 1% credit is available for the years 1976 through 1983. Company contributions are made to the ESOP trustee for investment primarily in the company's common stock for the benefit of the participating employees. For 1977, the 1% additional tax credit amounted to $0.5 million and for 1978 will approximate $0.6 million. It is the intent of the company generally to pay administrative costs of the Plan which were $0.1 million for 1977 and estimated to be less than $0.1 million for 1978.

Company Pension Plans

The company and its subsidiaries have several pension plans. It is the company's general policy to provide and fund current service costs and interest on unfunded prior service costs annually and to amortize past service costs over periods of 20 to 40 years. Vested benefits under these plans, as of December 30, 1978, were fully funded except for certain plans of the company's subsidiaries where the present value of vested benefits exceeded the market value of the plan assets by approximately $3.8 million. The company also contributes to joint industry and union plans. Substantially all employees are covered under one or more of these plans. Total pension costs approximated $34.4 million in 1978 and $31.8 million in 1977.

A proposed revision in pension plans, the adoption of a related thrift plan (both subject to approval by stockholders) and an increase in payments to present retirees are estimated to increase pension costs in 1979 by approximately $4.3 million.

Borrowing Arrangements

The company had unused lines of credit amounting to $332.3 million at December 30, 1978. Balances of approximately $17.1 million were maintained at banks to offset routine banking service charges and to support lines of credit. It is the company's policy to maintain bank lines of credit at least equal to its outstanding commercial paper.

Short-term borrowings were as follows:

	Amount	Weighted Avg. Interest Rate
	(In millions)	
December 30, 1978		
Commercial paper	$ 10.4	10.2%
Bank loans	99.2	8.2
Parallel loan financing	—	—
	$109.6	8.4%
Average short-term debt (monthly)	$117.1	9.0%
Maximum period-end short-term debt	$152.3	—
December 31, 1977		
Commercial paper	$ 19.7	7.0%
Bank loans	77.7	7.9
Parallel loan financing	—	—
	$ 97.4	7.7%
Average short-term debt (monthly)	$102.6	9.1%
Maximum period-end short-term debt	$123.9	—

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The average monthly borrowings and weighted average interest rates were determined using period-end borrowings and the interest rates applicable thereto.

Commercial paper is sold in the open market in the United States and Canada through money market dealers.

Long-term borrowings were as follows:

	Dec. 30, 1978	Dec. 31, 1977
	(In millions)	
4-3/8% Debentures due 1992	$ 16.1	$ 19.9
6-7/8% Debentures due 1996	35.0	44.9
8-3/8% Debentures due 2004	100.0	100.0
7.60% Debentures due 2007	100.0	100.0
14% loan due 1979 (Spanish subsidiary)	—	0.6
8-1/4% Guaranteed Notes due 1982 (Canadian subsidiary)	21.1	22.8
7-1/2% DM Convertible Bonds due 1985 (convertible into 289,545 shares in 1978 and 649,350 shares in 1977 of common stock of Kraft, Inc.)	24.6	47.7
2% Mortgage—Pennsylvania Industrial Development Authority due 1979/93	3.6	3.8
5.4% Notes due 2002	2.3	2.3
6% Notes due 1998	1.8	—
6% Insurance loan	0.4	—
Mortgages payable of subsidiaries due 1979/93	1.6	2.1
Parallel loan financing	—	—
	$306.5	$344.1

All of the issues of long-term debentures, other than the 7-1/2% DM Convertible Bonds and the debt of subsidiary companies, have sinking fund requirements. The amounts shown as outstanding at December 30, 1978, exclude maturities, amounts provided for payment and sinking fund requirements included in current liabilities and $12.4 million of debentures held in treasury in excess of current sinking fund requirements.

In December 1978, DM 55.4 million ($30.1 million) of the DM Convertible Bearer Bonds were redeemed at a premium, which was immaterial with respect to 1978 earnings. At December 30, 1978, an amount of DM 100 million ($55.1 million at December 30, 1978 and $47.7 million at December 31, 1977) is included in Miscellaneous Investments, such funds to be used for the full or partial redemption of the outstanding DM Convertible Bearer Bonds. The interest rate earned on the investment is 8-1/2% per annum.

Excluded from long-term debt and assets are borrowing arrangements in foreign currencies for which there are related loans receivable of equivalent amounts. At December 30, 1978, parallel arrangements consisted of a long-term amount of $25.0 million maturing in 1990 and short-term amounts of $43.7 million. In the event of default by either party under these arrangements, a legal right of offset allows defaulted principal and accrued interest to be offset against the related repayment obligation. The interest rate on the loan payable is 11-1/4% and the interest rate on the dollar loan receivable is 8-3/4% for the $25.0 million loan. For the short-term arrangements, the interest rates range from 4.125% to 13.5% for the loans payable and 4.0% to 13.25% for the loans receivable.

As of December 30, 1978, the net aggregate amounts of annual sinking fund and repayment requirements of long-term debt, after deducting amounts provided for payment, total $4.3 million for 1979, $0.5 million for 1980, $0.4 million for 1981, $21.4 million for 1982 and $4.1 million for 1983.

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Interim Results (Unaudited)

The following is a summary of the unaudited interim results of operations for two years:

	1978	1977
	(In millions, except per share)	
	13 Weeks Ended	
	Apr. 1, 1978	Mar. 26, 1977
Net sales	$1,389.8	$1,283.2
Cost of products	1,089.5	1,019.7
Net income	47.9	38.5
Net income per common and common equivalent share	$1.71	$1.38
	Jul. 1, 1978	Jun. 25, 1977
Net sales	$1,377.7	$1,291.2
Cost of products	1,084.9	1,018.4
Net income	45.4	41.2
Net income per common and common equivalent share	$1.62	$1.47
	Sept. 30, 1978	Sept. 24, 1977
Net sales	$1,454.7	$1,304.9
Cost of products	1,151.0	1,044.2
Net income	47.0	39.8
Net income per common and common equivalent share	$1.68	$1.42
	Dec. 30, 1978	14 Weeks Ended Dec. 31, 1977
Net sales	$1,447.7	$1,359.5
Cost of products	1,144.1	1,086.9
Net income	43.7	34.6
Net income per common and common equivalent share	$1.56	$1.24

Contingent Liabilities

There are no pending legal proceedings against the company other than ordinary routine litigation (including several private actions, some seeking treble damages, based on alleged violation of the antitrust laws) which is incidental to the company's business and, based on the opinion of the company's General Counsel, it is believed that the outcome of such litigation will not materially affect the company's consolidated financial position or operations. Also, see the comments in Legal Matters, page 26.

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International Subsidiaries

The financial statements of international subsidiaries other than Canadian, which are included in consolidated financial statements, in the aggregate, reflect the following:

	Dec. 30, 1978	Dec. 31, 1977
	(In millions)	
Notes and accounts receivable	$104.0	$ 86.6
Inventories	202.4	172.3
Property, plant and equipment, less accumulated depreciation	130.7	127.3
Other assets	45.4	16.0
	482.5	402.2
Less—Liabilities	224.3	207.6
Net assets	$258.2	$194.6

The net sales, income before taxes, and net income for the two years ended December 30, 1978 and December 31, 1977 of such subsidiaries were as follows:

	Net Sales	Income Before Taxes*	Net Income*
		(In millions)	
1978	$990.9	$33.1	$20.4
1977	$848.3	$20.3	$ 7.9

*For details on translation of foreign currencies, see pages 26 and 30.

Income before taxes includes losses of certain international subsidiaries for which no potential future tax benefits have been recorded. Also, see comments in Financial Review, pages 23 and 24. Income taxes included in the determination of net income are based upon foreign income tax rates applicable to such income. Any additional taxes expected to be payable in the United States on foreign income are included in the consolidated provision for income taxes.

Capital Transactions	Number of Shares		Amounts (Dollars in millions)		
	Common Stock	Treasury Stock	Common Stock	Treasury Stock	Capital Surplus
December 25, 1976	29,451,388	1,651,130	$73.6	$69.7	$49.3
Used for—					
Stock Ownership Plan	—	(60,650)	—	(2.5)	0.3
Management Incentive Compensation Plan	—	(205)	—	—	—
Stock options exercised	—	(21,564)	—	(0.9)	(0.1)
December 31, 1977	29,451,388	1,568,711	$73.6	$66.3	$49.5
Used for—					
Stock Ownership Plan	—	1,500	—	0.1	(0.1)
Management Incentive Compensation Plan	—	(212)	—	—	—
Stock options exercised	—	(20,293)	—	(0.9)	(0.1)
December 30, 1978	29,451,388	1,549,706	$73.6	$65.5	$49.3

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Segments of the Business

The company operates principally in one industry — food and kindred products — which represents approximately 96 percent of its business.

Segments of Business by Geographical Areas

Five Year Summary (In millions)

	1978	1977	1976	1975	1974
Sales:					
To unaffiliated customers—					
United States	$4,094.8	$3,812.6	$3,665.5	$3,609.2	$3,358.1
Canada	584.2	577.9	561.2	484.6	430.8
Europe	749.4	645.2	566.2	592.1	519.6
All other	241.5	203.1	183.7	171.5	162.9
Total	$5,669.9	$5,238.8	$4,976.6	$4,857.4	$4,471.4
Operating profit:					
United States	$ 307.9	$ 280.8	$ 265.9	$ 244.4	$ 167.4
Canada	37.2	33.0	33.4	32.0	24.8
Europe	22.6	18.6	15.6	20.9	28.1
All other	21.3	19.4	17.5	15.9	13.5
Total	$ 389.0	$ 351.8	$ 332.4	$ 313.2	$ 233.8
Corporate general expense	$ (33.7)	$ (24.8)	$ (26.7)	$ (18.6)	$ (18.2)
Currency translation gain (loss)	8.6	(3.7)	(5.2)	1.3	(2.8)
Interest expense, net	(12.6)	(20.8)	(22.5)	(27.7)	(36.0)
Income before income taxes	$ 351.3	$ 302.5	$ 278.0	$ 268.2	$ 176.8
Identifiable assets:					
United States	$1,343.0	$1,179.6	$1,184.4	$1,098.9	$1,166.9
Canada	164.2	156.1	156.0	152.6	148.1
Europe	328.1	297.5	273.6	257.1	252.5
All other	135.5	113.1	96.0	99.6	87.3
Corporate	330.1	339.1	111 9	78.3	100.4
Total	$2,300.9	$2,085.4	$1,821.9	$1,686.5	$1,755.2

Note: Operating profit and corporate general expense amounts have been reclassified for years prior to 1978 to reflect currency translation gains or losses applicable to inventories and other balance sheet accounts as a separate item. Identifiable assets by geographical areas for years prior to 1978 have been reclassified to reflect intangible assets and other items to their appropriate geographical areas.

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Segments of Business by Classes of Products

Five Year Summary (In millions)

Sales:	1978	1977	1976	1975	1974
To unaffiliated customers—					
Processed Foods					
Cheese and related products	$2,266.9	$2,085.3	$1,961.2	$1,779.5	$1,600.3
Vegetable oil based and other products	2,216.1	2,002.3	1,829.4	1,923.6	1,803.8
Dairy Group					
Fluid milk products	457.0	448.8	453.9	457.6	436.4
Ice cream and frozen desserts	309.8	292.4	289.3	279.9	233.6
Manufactured dairy products	174.0	175.1	234.3	228.6	209 4
Other products	17.6	17.4	21.4	20.4	20.0
Nonfood Products	228.5	217.5	187.1	167.8	167.9
Total sales to unaffiliated customers	$5,669.9	$5,238.8	$4,976.6	$4,857.4	$4,471.4
Operating profit:					
Processed Foods	$ 335.7	$ 299.1	$ 277.4	$ 260.3	$ 186.5
Dairy Group	26.7	30.0	31.6	35.8	24.8
Nonfood Products	26.6	22.7	23.4	17.1	22.5
Total operating profit	$ 389.0	$ 351.8	$ 332.4	$ 313.2	$ 233.8
Corporate general expense	(33.7)	(24.8)	(26.7)	(18.6)	(18.2)
Currency translation gain (loss)	8.6	(3.7)	(5.2)	1.3	(2.8)
Interest expense, net	(12.6)	(20.8)	(22.5)	(27.7)	(36.0)
Income before income taxes	$ 351.3	$ 302.5	$ 278.0	$ 268.2	$ 176.8
Identifiable assets:					
Processed Foods	$1,616.9	$1,409.1	$1,364.6	$1,280.3	$1,332.0
Dairy Group	158.2	155.7	165.9	175.7	178.0
Nonfood Products	195.7	181.5	179.5	152.2	144.8
Corporate	330.1	339.1	111.9	78.3	100.4
Total identifiable assets	$2,300.9	$2,085.4	$1,821.9	$1,686.5	$1,755.2
Depreciation:					
Processed Foods	$ 41.2	$ 38.9	$ 37.5	$ 33.9	$ 31.6
Dairy Group	12.9	12.3	12.3	11.4	11.5
Nonfood Products	8.0	7.7	6.8	5.9	5.4
Corporate	2.4	2.0	1.2	1.2	0.7
Total depreciation	$ 64.5	$ 60.9	$ 57.8	$ 52.4	$ 49.2
Capital expenditures:					
Processed Foods	$ 66.4	$ 54.4	$ 57.4	$ 86.2	$ 66.4
Dairy Group	16.9	11.9	11.9	11.2	9.7
Nonfood Products	13.7	9.5	16.5	19.4	13.8
Corporate	6.3	1.3	0.5	0.6	4.3
Total capital expenditures	$ 103.3	$ 77.1	$ 86.3	$ 117.4	$ 94.2

Note: Operating profit and corporate general expense amounts have been reclassified for years prior to 1978 to reflect currency translation gains or losses applicable to inventories and other balance sheet accounts as a separate item. Identifiable assets by classes of products for years prior to 1978 have been reclassified to reflect intangible assets and other items to their appropriate product classes.

In the two segment tables, intersegment sales are immaterial except in the Nonfood Group which amounts to $92.0 million in 1978, $81.8 million in 1977, $75.7 million in 1976, $66.8 million in 1975 and $56.7 million in 1974.

Intersegment sales are accounted for as intercompany sales made in accordance with company pricing policies established on the basis of arms-length transactions. Such sales are eliminated against cost of products in the consolidated statements. Operating profit is total revenue less operating expenses. In computing operating profit, none of the following items have been added or deducted: general corporate expenses, currency translation gains or losses, net interest expense and income taxes. Identifiable assets are those assets of the company that are identified with the operations in each segment and geographic area. Corporate assets are principally cash, temporary investments and properties. Sales to a single customer do not exceed 10 percent of total sales. Export sales are nominal.

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Replacement Cost Information (Unaudited)

The company has computed replacement cost data for property, plant and equipment, depreciation, cost of products and inventories in compliance with Securities and Exchange Commission regulations.

These computations indicate that the estimated cost of replacing the productive capacity of the property, plant and equipment at the end of 1978 and 1977 and the related depreciation on a replacement cost basis would be higher than the historical costs actually incurred. This is due to the cumulative results of inflation over the long useful lives of these assets.

In addition, the replacement cost of products and inventories for both years would be higher than on the historical cost basis. This difference is due primarily to fluctuations in prices of major raw ingredients, cheese and vegetable oil, and increased depreciation to reflect replacement cost of productive capacity.

The impact of inflationary pressures on the company's operations has been reduced through increased productivity, cost effectiveness programs, improvements in technology and changes in selling prices.

Kraft, Inc.'s Annual Report to the Securities and Exchange Commission on Form 10-K (a copy of which is available on request) contains more specific information with respect to replacement cost of property, plant and equipment, depreciation, cost of products and inventories.

Auditors' Report

To the Board of Directors and Stockholders of Kraft, Inc.:

We have examined the consolidated balance sheet of Kraft, Inc. (a Delaware corporation) and subsidiaries as of December 30, 1978, and December 31, 1977, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Kraft, Inc. and subsidiaries as of December 30, 1978, and December 31, 1977, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

69 West Washington Street
Chicago, Illinois 60602
February 16, 1979

Responsibility for Financial Statements

The above auditors' report expresses their opinion as to the fair presentation of the company's financial statements and their consistent conformity with generally accepted accounting principles. It is management's responsibility to see that such financial statements accurately reflect the financial position of the company and its operating results. All of the financial information in the text of this annual report is consistent with that in the financial statements.

The company maintains systems of internal controls, policies and procedures to ensure that its accounting, administrative procedures and reporting practices are of the highest quality and integrity. The company also maintains an internal auditing function which constantly evaluates the adequacy and effectiveness of such internal controls, policies and procedures. The company's business ethics policy, which is regularly communicated to all levels of the organization, requires employees to maintain the highest ethical standards in their conduct of company affairs.

The Audit Committee of the Board of Directors (which is composed entirely of directors who are not officers of the corporation) meets periodically with the independent auditors and with management to satisfy itself that both are properly discharging their responsibilities. (See inside back cover.)

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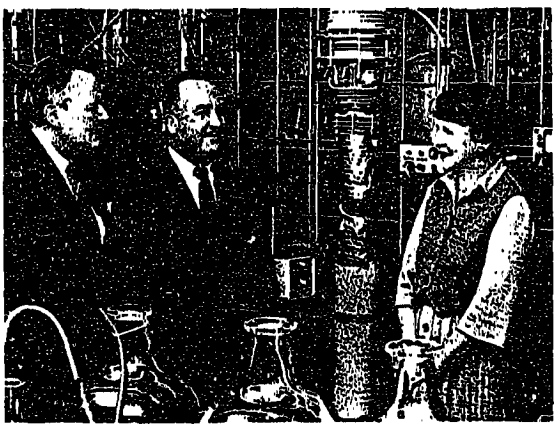

Top, l. to r.: John F. McGillicuddy, Dr. Lloyd C. Elam, Walter N. Thayer, William O. Beers, E. Mandell de Windt.

Middle left, l. to r.: John S. Reed, Arthur W. Woelfle, Catherine B. Cleary.

Middle right, l. to r.: John D. deButts *(seated)*, George G. Zipf, M. Joseph Lambert.

Bottom, l. to r.: Robert S. Ingersoll, O. Everett Swain, Edward R. Telling, John L. Weinberg.

Not pictured: John M. Richman.

Board of Directors

William O. Beers
Chairman of the Board and
Chief Executive Officer

Catherine B. Cleary
Adjunct Professor
School of Business Administration
University of Wisconsin — Milwaukee
Milwaukee

John D. deButts
Retired Chairman of the Board and
Chief Executive Officer
American Telephone and
Telegraph Company
New York

E. Mandell de Windt
Chairman of the Board and
Chief Executive Officer
Eaton Corporation
Manufacturing
Cleveland

Lloyd C. Elam, M.D.
President, Meharry Medical College
Nashville

Robert S. Ingersoll
Deputy Chairman of the Board of
Trustees, University of Chicago
Chicago

M. Joseph Lambert
Senior Vice President and
Chief Financial Officer

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President, Manufacturers Hanover
Corporation and President,
Manufacturers Hanover Trust Company
Commercial Banking
New York

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Chairman of the Board and
Chief Executive Officer, Santa Fe
Industries, Inc., and of The Atchison,
Topeka and Santa Fe Railway Company
Chicago

John M. Richman
Deputy Chairman of the Board

O. Everett Swain
Executive Vice President, and
Chairman Retail Food Group

Edward R. Telling
Chairman of the Board and
Chief Executive Officer
Sears, Roebuck & Co.
Retailing
Chicago

Walter N. Thayer
Partner, Whitcom Investment Company
and President, Whitney
Communications Corporation
Investments and Publishing
New York

John L. Weinberg
Senior Partner, Goldman, Sachs & Co.
Investment Banking
New York

Arthur W. Woelfle
President and
Chief Operating Officer

George G. Zipf
President and Chief Operating Officer
The Babcock & Wilcox Company
and Vice Chairman of
J. Ray McDermott & Co., Inc.
Manufacturing
New York

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Officers and Committees

(*Member, Management Policy Committee)

William O. Beers*
Chairman of the Board and
Chief Executive Officer

John M. Richman*
Deputy Chairman of the Board

Arthur W. Woelfle*
President and
Chief Operating Officer

Donald W. Carlin
Senior Vice President and
General Counsel

Chester R. Green
Senior Vice President -
Product Development,
Marketing and Research

M. Joseph Lambert*
Senior Vice President and
Chief Financial Officer

Luke Davis*
Executive Vice President -
Operations Group

Charles R. LeMaster*
Executive Vice President,
and President Foodservice and
Industrial Group

William E. Reidy*
Executive Vice President

John M. Steiner*
Executive Vice President, and
President Dairy Group

O. Everett Swain*
Executive Vice President, and
Chairman Retail Food Group

John J. Beatty, III
Vice President -
Government Relations

Joseph L. Caliri
Vice President and Secretary

Dorothy W. Holland
Vice President and Director of
Consumer Affairs

Robert G. Johnson
Vice President and
Assistant General Counsel

William B. Jordan
Vice President and Treasurer

John T. Kelly
Vice President and
Assistant General Counsel

Heribert Kohlhaas
Vice President, and President
Kraft International Division

Channing H. Lushbough
Vice President
Quality Assurance

Margaret P. MacKimm
Vice President and
Director of Public Relations

Thomas J. McHugh
Vice President - Taxes

Edward W. Smeds
Vice President - Human Resources

John X. Thomas
Vice President -
Community and Civic Affairs

Carmen G. Tumino
Vice President - Engineering

John F. White
Vice President and Director of
Research and Development

Herman M. Wille
Vice President - Urban Affairs

Roger H. Willis
Vice President and Comptroller

Richard J. Foley
Assistant Secretary

Anthony K. Grina
Assistant Treasurer

Robert W. Hoaglund
Assistant Comptroller

Kenneth S. Kirsner
Assistant Secretary

Howard M. Lee
Assistant Treasurer

Arthur R. Messerschmidt
Assistant Treasurer

Mary P. O'Brien
Assistant Secretary

Conrad G. Olson
Assistant Comptroller

Audit Committee

The Audit Committee, composed of Directors who are not Kraft employees, recommends selection of the independent auditors; reviews matters pertaining to the audit, systems of internal control, and accounting policies and procedures; and approves services provided by the independent auditors.

George G. Zipf, Chairman
John D. deButts
Robert S. Ingersoll
John S. Reed

Committee on Directors

The Committee on Directors seeks, identifies, reviews qualifications of, and recommends candidates for Board membership.

William O. Beers, Chairman
Catherine B. Cleary
John D. deButts
John F. McGillicuddy
George G. Zipf

Employee Benefits Committee

The Employee Benefits Committee, composed of Directors who are not Kraft employees, makes recommendations to the Board concerning employee benefit plans and monitors the investment performance of employee benefit trust funds.

Walter N. Thayer, Chairman
Catherine B. Cleary
Lloyd C. Elam, M.D.
John F. McGillicuddy

Executive Committee

The Executive Committee has most of the powers of the Board of Directors and can act when the Board is not in session.

William O. Beers, Chairman
Catherine B. Cleary
E. Mandell de Windt
Robert S. Ingersoll
John F. McGillicuddy
John S. Reed
Edward R. Telling
Walter N. Thayer
Arthur W. Woelfle

Finance Committee

The Finance Committee reviews and makes recommendations to the Board in connection with dividends and with financial policies and procedures.

M. Joseph Lambert, Chairman
William O. Beers
Catherine B. Cleary
John D. deButts
John F. McGillicuddy
Edward R. Telling
John L. Weinberg
Arthur W. Woelfle
George G. Zipf

Management Compensation Committee

The Management Compensation Committee, composed of Directors who are not Kraft employees, makes recommendations to the Board regarding salary changes for certain management personnel, and administers various management incentive plans.

John F. McGillicuddy, Chairman
John D. deButts
E. Mandell de Windt
Walter N. Thayer

Operating Committee

Arthur W. Woelfle, Chairman
William O. Beers
Robert S. Coakley
Luke Davis
Chester R. Green
Russell J. Greenwood
Heribert Kohlhaas
S L Kopald, Jr.
Charles R. LeMaster
John E. Mast
R. Dean Nelson
William E. Reidy
H. Keith Ridgway
Carl D. Steen
John M. Steiner
O. Everett Swain

Transfer Agents

Manufacturers Hanover Trust Company
4 New York Plaza,
New York, New York 10015

Harris Trust and Savings Bank
111 West Monroe Street,
Chicago, Illinois 60690

Bank of America, N.T. & S.A.
55 Hawthorne Street,
San Francisco, California 94120

The Royal Trust Company
630 Dorchester Boulevard West,
Montreal 110, P.Q., Canada
Royal Trust Tower,
Toronto-Dominion Centre,
Toronto 116, Ont., Canada

†Commonwealth Trading Bank of Australia
367 Collins Street,
Melbourne Victoria, Australia

Registrars

The Chase Manhattan Bank, N.A., New York
Continental Illinois National Bank and Trust Company of Chicago, Chicago
Wells Fargo Bank, N.A., San Francisco
Montreal Trust Company, Montreal and Toronto
†The Wales Nominees (Vic.) Pty. Limited, Melbourne

Stock Exchanges

New York (principal market), Midwest, Pacific, Montreal, Toronto, †Adelaide, Amsterdam, †Brisbane, †Hobart, †Melbourne, †Perth, †Sydney, London, Brussels, Antwerp, Frankfurt/Main, Basel, Bern, Geneva, Lausanne, Zurich.
U.S. Trading Symbol: KRA.

Auditors

Arthur Andersen & Co.

Corporate Headquarters

Kraft, Inc.
Kraft Court
Glenview, Illinois 60025
(312) 998-2000

†For shares represented by Australian certificates only.

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